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July 20, 2004

VIA HAND DELIVERY

Honorable Jean Stone, Esq., Hearing Officer
c/o Sharla Dillon, Docket & Records Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

***RE: Petition of Cellco Partnership d/b/a Verizon Wireless
For Arbitration Under the Telecommunications Act of 1996
TRA Consolidated Docket # 03-00585***

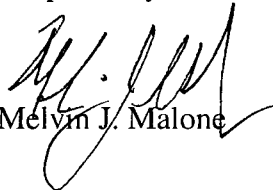
Dear Hearing Officer Stone:

Enclosed please find one (1) original and thirteen (13) copies of the CMRS Providers' Motion for Leave to File Supplemental Testimony and Memorandum in Support

Also enclosed is an additional copy of this document to be "Filed Stamped" for our records

If you have any questions or need additional information, please let me know

Respectfully,



Melvin J. Malone

MJM.cgb
Enclosure

cc: Parties of Record

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

Petition of

Cellco Partnership d/b/a Verizon Wireless
For Arbitration Under the
Telecommunications Act of 1996

Consolidated Docket
No. 03-00585

**CMRS PROVIDERS' MOTION FOR LEAVE
TO FILE SUPPLEMENTAL TESTIMONY AND
MEMORANDUM IN SUPPORT**

Petitioners Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"), AT&T Wireless PCS, LLC d/b/a AT&T Wireless ("AT&T Wireless"); BellSouth Mobility LLC, BellSouth Personal Communications LLC and Chattanooga MSA Limited Partnership, collectively d/b/a Cingular Wireless ("Cingular Wireless"); Sprint Spectrum L.P. d/b/a Sprint PCS ("Sprint PCS"); and T-Mobile USA, Inc. ("T-Mobile"), collectively referred to herein as the CMRS Providers, hereby seek an Order from the Tennessee Regulatory Authority ("TRA"), allowing the CMRS Providers to file supplemental testimony of their expert witness, Mr. Craig Conwell. In support of this Motion, the CMRS Providers allege and state:

1 On March 19, 2004, pursuant to the Procedural Schedule herein, the CMRS Providers submitted their First Set of Interrogatories to the Rural Independent Coalition.

2 On May 13, 2004, the CMRS Providers filed a Motion to Compel, seeking an Order from the TRA, requiring the Rural Independent Coalition to answer certain of the CMRS Providers' Interrogatories.

3. On June 17, 2004, the TRA entered its Order Granting Motion to Compel

4. One of the issues involved in the Motion to Compel was the request by the CMRS Providers that each member of the Rural Independent Coalition produce (1) its most recent cost study, and (2) its two most recent audited financial statements.

5. The issue of production of audited financial statements is currently pending before the TRA on the Motion For Reconsideration filed by the Rural Independent Coalition

6 The Coalition has, however, agreed to produce cost studies, and several have been produced

7. The deadline for filing direct testimony in these consolidated cases was June 3, 2004. The deadline for filing rebuttal testimony was June 24. The Rural Independent Coalition produced the first cost studies on June 23. Some studies were produced after June 24. None of the studies was produced in time for the CMRS Providers to take account of the studies in filed testimony

8 The cost studies are relevant to this proceeding, because they help answer the question whether the transport and termination rates proposed by the Rural Independent Coalition members comply with the Telecommunications Act of 1996 and FCC Regulations.

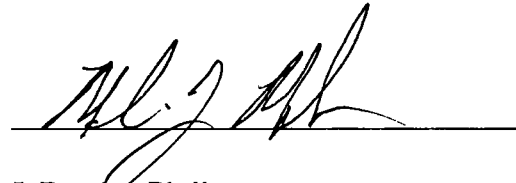
9. The CMRS Providers seek leave to file supplemental testimony of Craig Conwell, their expert cost witness, analyzing the cost studies produced by the Rural Independent Coalition members and discussing whether those studies comply with the costing and pricing rules of the Telecommunications Act of 1996 and FCC Regulations.

10 Attached hereto is the Supplemental Testimony of Mr. Conwell that the CMRS Providers seek leave to file.

11. If the TRA denies the Motion for reconsideration filed by the Rural Independent Coalition and orders the production of the Coalition members' audited financial statements, the CMRS Providers may need to seek leave to further supplement Mr. Conwell's testimony.

THEREFORE, the CMRS Providers seek an Order from the TRA, accepting the attached Supplemental Testimony of Craig Conwell for consideration herein

DATED: July 20, 2004



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CERTIFICATE OF SERVICE

I hereby certify that on July 20, 2004, a true and correct copy of the foregoing has been served on the parties of record, via the method indicated

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Melvin J. Malone

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

Petition of:)	
)	
)	
Cellco Partnership d/b/a Verizon Wireless)	Consolidated Docket
For Arbitration Under the)	No. 03-00585
Telecommunications Act of 1996)	
)	

**SUPPLEMENTAL TESTIMONY OF W. CRAIG CONWELL
ON BEHALF OF
VERIZON WIRELESS, CINGULAR WIRELESS, AT&T WIRELESS
AND T-MOBILE USA**

INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND EMPLOYER.**

2 A. My name is W. Craig Conwell. My business address is 405 Hammett Road, Greer, South
3 Carolina I am an independent consultant.

4

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

6 A Yes, I filed direct and rebuttal testimony on behalf of Verizon Wireless, Cingular
7 Wireless, AT&T Wireless and T-Mobile USA.

8

9 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

10 A. I am filing supplemental testimony to inform the Tennessee Regulatory Authority (the
11 “TRA”) of the following:

1 1 Recent cost studies provided by the Rural Coalition for eight of its companies
2 do not meet the FCC requirements for establishing transport and termination
3 rates.¹ They are switched access cost studies based on embedded costs, rather
4 than forward-looking economic costs, and of no use in establishing reciprocal
5 compensation for telecommunications traffic between the Rural Coalition
6 companies and the CMRS Providers.

7 2. In response to supplemental interrogatories by the CMRS Providers, the Rural
8 Coalition companies failed to provide sufficient information even to review or
9 evaluate the switched access rates proposed by the Coalition in Exhibit E to Mr
10 Watkins' testimony. (I have explained in my prior testimony that these switched
11 access rates are entirely inappropriate for determining reciprocal compensation
12 rates.)

13 3. Finally, the CMRS Providers have not been provided audited financial
14 statements for the Rural Coalition companies. This information is necessary to
15 evaluate any forward-looking economic costs developed per the FCC rules and to
16 refine the "benchmark" rates I discussed in my earlier testimony.

17
18 **Q. HAVE YOU PREVIOUSLY IDENTIFIED THE FCC'S REQUIREMENTS FOR**
19 **ESTABLISHING TRANSPORT AND TERMINATION RATES?**

20 A. Yes, on pages five and six of my direct testimony I indicated that the FCC rules in 47
21 CFR §51.705(a) specifically require transport and termination rates be based on forward-

¹ These cost studies produced by the Rural Coalition were made available to parties only after a recent status conference with the Hearing Officer. Production of these cost studies occurred after the preparation and filing of my rebuttal testimony, thus necessitating this supplemental testimony.

1 looking economic costs or a bill-and-keep arrangement.² Furthermore, the FCC rules in
2 §51.505(e) require cost-based rates for transport and termination cannot exceed forward-
3 looking economic costs. On pages seven and eight of my direct testimony, I described
4 the following key requirements for these costs

- 5
- 6 1 Plant reflects forward-looking technology and costs;
- 7 2. Plant capacity reflects efficient network configuration;
- 8 3. Support asset costs and operating expenses are directly attributable to
- 9 transport and termination and must be forward-looking,
- 10 4. Common costs allocated to transport and termination must be forward-looking
- 11 and efficiently incurred.
- 12

13 **Q. HAVE YOU ALSO DESCRIBED THE FCC POSITION OF THE USE OF**
14 **SWITCHED ACCESS RATES FOR RECIPROCAL COMPENSATION?**

15 A. On page four of my rebuttal testimony, I cited the FCC's *Local Competition Order*,
16 which states " .. traffic to or from a CMRS network that originates and terminates within
17 the same MTA is subject to transport and termination rates under section 251(b)(5),
18 rather than interstate and intrastate access rates." The FCC is clear that access rates are
19 inappropriate for reciprocal compensation.

20

21 Furthermore, beginning on page five of my rebuttal testimony, I point out it is unlikely
22 that costs developed for switched access rates are equal to forward-looking economic

² Forward-looking economic costs are defined in §51.505

costs required for reciprocal compensation, and I identify reasons why access charges are usually higher than forward-looking costs.

Q. WHAT TYPE OF COST STUDIES DID THE RURAL COALITION PROVIDE TO THE CMRS PROVIDERS?

A. The eight cost studies provided to date appear to be interstate access cost studies per the FCC Part 69 methodology. They are not forward-looking economic costs studies and are irrelevant to establishing cost-based rates for reciprocal compensation. They have no value in this arbitration.

Q. ALTHOUGH THE SWITCHED ACCESS RATES PROPOSED IN EXHIBIT E ARE INAPPROPRIATE FOR DETERMINING RECIPROCAL COMPENSATION, HAS THE COALITION PRODUCED INFORMATION NEEDED TO EVALUATE THOSE RATES?

A. No. Even though the proposed switched access rates are inappropriate for reciprocal compensation, the CMRS Providers asked for supporting information in supplemental interrogatories. Specifically, the Rural Coalition was asked to provide references or citations "adequate to enable the basis for each company's rates to be determined", and the Coalition was asked to "produce the data, cost models, and all support, including any relevant citations to public records, which support rates or the assumptions upon which the rates in Exhibit E are based."³

³ Supplemental Interrogatories of the CMRS Providers, Numbers 5 and 7

1 Q. WAS THE RURAL COALITION'S RESPONSE ADEQUATE TO REVIEW THE
2 PROPOSED RATES?

3 A No The Coalition provided a general response by referring the CMRS Providers to the
4 FCC and NECA web-sites. The response stated:

5
6 "Without waiving rights regarding admissibility and relevance, those Coalition
7 members that are required to perform cost studies for submission to NECA have
8 offered to provide the CMRS Providers with copies of those studies NECA
9 incorporates these studies into the development of its tariff filings and cost
10 support information The annual NECA tariff filings are readily available from
11 both the FCC and the NECA web sites. The most recent NECA annual tariff
12 filing, for example can be found at
13 http://www.necs.org.source/NECA_150_1207.asp. Cost support information filed
14 by NECA that was used to derive the rates offered by the ICOs in the context of a
15 voluntary negotiation is available on the FCC web-site. Examples of this
16 information are provided in Attachment 2."⁴
17

18 The purpose of the supplemental interrogatory was to obtain a better understanding of the
19 basis for the eighteen proposed terminating rates in Mr. Watkins' Attachment E Keep in
20 mind these are specific numerical values. One would expect there to be underlying
21 details that would explain the makeup and derivation of the rates. When I referred to the
22 NECA web site suggested by the Coalition, I found NECA Tariff FCC No. 5, which
23 contains in section 17 "Rates and Charges" for switched access service. I found rates for
24 numerous rate elements for local transport, which are not expressed on a per-minute basis
25 as are the Coalition proposed terminating rates. I found Local Switching rates per access
26 minute for Premium and Non-Premium services. I found miscellaneous other charges,
27 which I would not expect to apply to transport and termination of telecommunications

⁴ Response to supplemental interrogatory number 5, "Response of the Rural Coalition of Small LECs and Cooperatives to the Supplemental Interrogatories of the CMRS Providers," July 6, 2004 The response to

1 traffic between the Rural Coalition companies and CMRS Providers. However, I did not
2 find the Rural Coalition company proposed terminating rates. In addition, I did not find
3 data, such as company minutes of use or transport mileages, that would enable me to
4 replicate the proposed rates. The Coalition was unresponsive to the supplemental
5 interrogatory.

6
7 **Q. WERE THE "EXAMPLES" IN ATTACHMENT 2 TO THE COALITION'S**
8 **RESPONSE TO SUPPLEMENTAL INTERROGATORY NUMBERS FIVE AND**
9 **SEVEN OF ANY VALUE?**

10 A No, Attachment 2 contains hundreds of pages of NECA documentation but does not
11 contain company-specific data indicating each company's switched access costs on a per-
12 minute basis. Thus, the documentation produced by the Coalition is useless in evaluating
13 the rates contained in Attachment E to Mr. Watkins' direct testimony. Attached as
14 Exhibit A to my supplemental testimony are excerpted files of the type of useless
15 information the Coalition produced.

16
17 **Q. DO THE COST STUDIES THE ICOS PRODUCED SUPPORT THE SWITCHED**
18 **ACCESS RATES PROPOSED IN EXHIBIT E?**

19 A. No. There is no clear linkage between an individual cost study and the proposed rate for
20 the company providing the study. It is not possible to determine how the results of a cost
21 study are manipulated to produce a proposed rate. According to Mr Watkins, this is
22 because the cost studies of many companies are synthesized in NECA's switched access

supplemental interrogatory number 7 referred to the same Attachment 2 and FCC web site referenced in response to
interrogatory number 5

1 rate development to produce rates. However, the cost studies do confirm that the
2 proposed rates are based on embedded costs rather than forward-looking economic costs
3 and, therefore, do not meet the FCC requirements for establishing cost-based reciprocal
4 compensation.

5
6 **Q. DID THE CMRS PROVIDERS SEEK OTHER INFORMATION ON THE**
7 **MAKEUP OF THE PROPOSED RATES?**

8 A. In the sixth supplemental interrogatory the Coalition was asked to list the "access
9 function elements" included in *each* of the ICO's rates contained in Attachment E. The
10 CMRS Providers must know whether the access function elements are at least equivalent
11 to transport and termination. They also must know the reason for the wide variation in
12 proposed rates, to the extent the variation is due to some companies providing access
13 functions that others do not. The Coalition response did not address individual company
14 access functions and instead generally indicated that "access function elements include
15 tandem-switched transport and tandem charge, local switching, and transport." Thus, the
16 CMRS Providers again were denied information needed to evaluate the proposed rates.

17
18 **Q. WHAT INFORMATION WOULD HAVE BEEN RESPONSIVE TO THE CMRS**
19 **PROVIDERS' SUPPLEMENTAL INTERROGATORIES NUMBERS FIVE**
20 **THROUGH SEVEN?**

21 A. At a minimum the Rural Coalition should have produced the numerical data underlying
22 the eighteen proposed terminating rates in Mr. Watkins' Attachment E. For example,
23 Attachment E contains a specific rate for the Ardmore Telephone Co. Assuming the

1 Ardmore rate is derived from NECA Tariff 5, section 17 (Switched Access Service Rates
2 and Charges), a simple table or spreadsheet should have been produced showing the
3 switched access rate elements and actual rates used to develop the proposed terminating
4 rate. If Local Transport mileage or access minutes specific to Ardmore factored into the
5 development, these should have been provided. On the other hand, if the Ardmore rate
6 comes from a different section of Tariff 5 or a different tariff, obviously this information
7 should have been provided. Because the Rural Coalition company rates are different one
8 from another, similar details should have been provided for each. It is not enough to say
9 that "Cost support information filed by NECA that was used to derive the rates offered ..
10 is available on the FCC web-site "

11
12 What I have just described are details needed to understand the numerical derivation of
13 the proposed rates at a very high level. In addition, information about underlying
14 assumptions is needed. If the proposed rates are computed based on assumed data values
15 (e.g., mileages or access minutes), the rationale for the assumptions should have been
16 given. Alternatively, the sources of computed data values should have been provided.
17 Also, the rationale for including particular switched access rate elements should have
18 been provided, again company by company.

19
20 Finally, the Coalition response to the CMRS Providers supplemental interrogatories
21 should have made clear the linkage from the NECA Tariff 5 switched access rates, on
22 which the proposed rates apparently are based, and the underlying NECA cost studies.
23 Typically, in reviewing cost support for transport and termination rates, one begins with

1 the proposed rates and "works backward" through successive levels of calculations,
2 assumptions and source data until the reasonableness of the proposed rates can be judged.
3 Without clearly linked cost support, this cannot be done.
4

5 **Q. SO, WHAT IS YOUR OVERALL OPINION OF THE INFORMATION**
6 **PROVIDED BY THE RURAL COALITION TO SUPPORT THE PROPOSED**
7 **RATES?**

8 A It is important to reiterate that the Rural Coalition's proposed rates, based on access
9 charges, are inappropriate. They do not meet the FCC rules for establishing transport and
10 termination rates, and they are contradictory to the FCC's position in the *Local*
11 *Competition Order*.
12

13 Having said this, the supporting information for the proposed rates is insufficient. Even
14 if interstate switched access rates were appropriate for the termination of
15 telecommunications traffic (as defined by the FCC), and switched access rates clearly are
16 not appropriate, the Rural Coalition companies have not provided information sufficient
17 to evaluate their proposals. As the record currently stands, neither the TRA nor I have
18 been given sufficient information to evaluate any of the rates proposed in Attachment E
19 to Mr Watkins' direct testimony. As I noted in my prior testimony, the "benchmark"
20 rate I produced is based upon publicly available cost data and certain reasonable
21 assumptions derived from my experience with telephone companies and the FCC
22 forward-looking economic cost methodology for establishing rates in cases such as this.
23 The Rural Coalition has simply not produced any information which would allow even

1 that benchmark rate to be refined on a company-specific basis. For that reason, and until
2 the Coalition companies produce appropriate cost studies with necessary supporting
3 documentation, I believe the TRA should adopt bill-and-keep as the appropriate method
4 of reciprocal compensation. Company-specific rates could be adopted if, and when, the
5 Coalition companies produce the appropriate supporting cost information.

6
7 **Q. HAS THE RURAL COALITION PROVIDED AUDITED FINANCIALS FOR ITS**
8 **MEMBER COMPANIES?**

9 A The CMRS Providers requested two years of audited financial statements for each
10 Coalition company.⁵ This includes balance sheet and income statement financials at the
11 account level. To date, this information has not been provided.

12
13 **Q. WHAT IS THE RELEVANCE OF THIS INFORMATION?**

14 A. The requested, audited financial statements are essential to any analysis of company-
15 specific, forward-looking economic costs. The cost data contained in them can be used
16 with appropriate adjustments to *estimate* forward-looking costs of individual Coalition
17 companies. For example, in my rebuttal testimony Attachment WCC-3, I computed an
18 average benchmark cost for local switching. Financial data for the Rural Coalition
19 companies can be used to develop company-specific data for several components of the
20 cost model. These include the maintenance expense factor, property tax factor, debt
21 ratio and forward-looking common costs. However, the resulting costs are *estimates*.

22

⁵ First Set of Interrogatories of the CMRS Providers, Number 37, as modified in the June 11, 2004 Joint Letter of the Rural Coalition and CMRS Providers

1 Audited financial statements would allow the benchmark costs to be made much more
2 company-specific. This is not an academic exercise. If the TRA decides to set company-
3 specific rates in this matter, rather than adopting bill-and-keep as the inter-carrier
4 compensation mechanism until the Coalition companies produce appropriate cost data,
5 then company-specific financial data are needed. Such data is contained in the requested
6 audited financial statements.

7
8 If the Coalition companies eventually produce forward-looking cost studies, the data
9 contained in the audited financial statements also are essential in evaluating the
10 reasonableness of the results. Study assumptions regarding expense-to-investment ratios,
11 support asset-to-primary plant account ratios, the level of common costs and others can
12 be compared to recent results as part of evaluating the reasonableness of the assumptions
13 in the studies.

14
15 Audited financials at the account level are a key component of the cost support needed to
16 establish transport and termination rates, and the CMRS Providers should be provided
17 this information.

18
19 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

20 **A** Yes. However, I request the opportunity to file additional testimony in the event the
21 Rural Coalition provides any additional cost support or audited financial statements.

Exhibit A
Conwell Supplemental Testimony

Example Excerpts from Attachment 2, Rural Coalition Response to Supplemental
Interrogatory No. 5

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC

ACCESS SERVICE
TARIFF F.C.C. No. 5

TRANSMITTAL NO. 988
JUNE 16, 2003

VOLUME 1 DESCRIPTION AND JUSTIFICATION

Defines the purpose of the filing, describes the rate structure of the access services and summarizes results.

VOLUME 1-2: TARIFF REVIEW PLAN

VOLUME 2: DEVELOPMENT OF ACCESS ELEMENT REVENUE
REQUIREMENTS

Provides a projection of the companies' interstate investments, expenses, revenues and taxes for the past year cost of service study and test year

VOLUME 3: DEVELOPMENT OF BASELINE DEMAND AND REVENUES

Provides the development of the demand quantities and revenues for the test year at current rates.

VOLUME 4: COMMON LINE RATE DEVELOPMENT

Describes and documents the procedures used to develop Common Line Rates and Federal Universal Service Charges.

VOLUME 5: TRAFFIC SENSITIVE RATE DEVELOPMENT

Describes and documents the procedures to develop recurring and non-recurring rate levels for Switched Access and Special Access services. It also describes the procedures used to develop miscellaneous charges for additional engineering, maintenance and testing of these services.

Volume 2
DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENTS

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Volume 2

DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENTS

Section 1

INTRODUCTION

This Volume describes methods and procedures used to develop calendar year 2002 Past Year Cost of Service Study (PYCOS) and test period (July 1, 2003 through June 30, 2004) prospective revenue requirements.

NECA requested cost information from all local exchange carriers (LECs) participating in NECA's tariffs. Data submitted by NECA tariff participants ranged from access element detail to pool level detail, depending on a LEC's size and ability to provide data.¹

For the purpose of gathering PYCOS and test period cost data, LECs were classified into three distinct groups. These groups are described in Section 2. Section 3 of this Volume provides a description of the methods used to collect and process data for the different groups of LECs, summarizes the results and establishes the forecasted revenue requirement for the test period. In addition to LEC revenue requirements, the forecast also includes allocated NECA administrative expenses. The forecasted revenue requirement provides the starting point for the rate development processes described in Volumes 4 and 5 of this filing.

¹ LECs participating in NECA's CL and TS tariffs range in size from 41 to approximately 1,150,000 access lines, with the median line size being approximately 2,760 access lines.

Volume 2

DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENT

Section 2

COMPANY CLASSIFICATIONS & DATA GUIDELINES

A OVERVIEW

This section describes the processes NECA used to gather revenue requirement data for use in developing PYCOS and test period revenue requirements. Also included in this section is a description of the level of detail collected from each group of companies and the underlying assumptions used in revenue requirement development. Exhibit 1 displays forecasted revenue requirements by access element at the authorized 11.25 percent rate of return (ROR) for each of NECA's pools.

B. DESCRIPTION OF GROUPS

Group B consists of larger cost companies participating in NECA's tariffs.² Collectively, these LECs conduct operations in a total of 166 study areas geographically dispersed throughout the country and comprise approximately 33 percent of NECA's common line (CL) test period revenue requirement and 14 percent of the test period traffic sensitive (TS) revenue requirement.

Group C LECs are generally small study areas that perform annual cost studies. These companies provide service in the remaining 585 cost company study areas. Group C companies

² Group B companies include: Alltel, Anchorage Telephone Utility, CenturyTel, Puerto Rico Telephone, and Telephone and Data Systems (TDS). Some study areas owned by holding companies in this group are included in Group D because they utilize average schedules. Forty Group B study areas participate solely in the Common Line Pool.

comprise approximately 44 percent of the CL Pool revenue requirement and 54 percent of the TS Pool revenue requirement.

The third group (Group D) consists of all average schedule companies, providing service in 490 study areas. Average schedule companies do not perform cost studies but settle on the basis of a series of nationwide access settlement formulas updated annually by NECA. These formulas are the basis of the revenue requirement developed for Group D companies in this filing. Group D study areas account for approximately 18 percent of the prospective CL Pool revenue requirement and 32 percent of the TS Pool revenue requirement. The remaining CL Pool revenue requirement is attributable to universal service contributions.

Exhibit 2 in Volume 1 shows the allocation of revenue requirements among the pools by group.

C. DATA GUIDELINES

In addition to complying with the Commission's Parts 32, 36, 54, 64, 65 and 69 rules, certain guidelines were established with regard to the provision of cost data. PYCOS and test period forecasts were made following Commission directives including the following.

- The test period for this filing is July 1, 2003 through June 30, 2004.
- The PYCOS period supporting this filing is January through December 2002.
- The authorized rate of return is 11.25 percent
- The impact of the 2003 Modification of Average Schedules³ is reflected in the development of revenue requirements.
- Separations factors, and category relationships if applicable, are frozen based on amounts from calendar year 2000 data⁴

³ National Exchange Carrier Association, Inc., 2003 Modification of Average Schedules for the Period July 1, 2003 Through June 30, 2004, filed December 31, 2002 (2003 Modification of Average Schedules)

⁴ See 47 C.F.R. § 36.3.

- Impact of the *MAG Order*⁵ on revenue requirements are reflected, including.
 - Shift of line port costs from traffic sensitive to common line,
 - Reallocation of Transport Interconnection Charge (TIC) costs to all other access elements;
 - Reallocation of a portion of General Support Facilities (GSF) costs to the billing and collection category for those companies that use general purpose computers to provide non-regulated billing and collection services.
- COE Category 3 investment is allocated using the factor as calculated in section 36.125(f) and Section 26 125(j) of the Commission's rules.
- The calculation of the rate base, including cash working capital and Allowance for Funds Used During Construction (AFUDC), is in accordance with Part 65 of the Commission's rules⁶
- NECA expenses are treated in accordance with Part 69 of the Commission's rules.
- 800 Database query costs are reflected as expenses for Part 32 accounting purposes and exclude the cost recovery of Local Number Portability queries.

⁵ Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, CC Docket No. 98-77, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, CC Docket No. 98-166, *Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166*, 16 FCC Rcd 19613 (2001) (*MAG Order*)

⁶ The following company study areas have changed their cash working capital methodology to a lead-lag methodology: Armstrong Tel Co – NY, Armstrong Tel Co – PA, Armstrong of MD, Armstrong of WV, Armstrong Tel Co., GTC, Inc. Blountsville Telephone Company, Bruce Telephone Company, Spring Valley Telephone Company, Delta County Telephone Company, Big Bend Telephone Company, Central Texas Cooperative, Poka-Lambro Telephone Cooperative, South Plains Telephone, Midvale – AZ, Midvale Telephone Exchange Inc, Interbel Telephone Cooperative, Northern Tel Cooperative, Uintahbasin dba UBTA, Midvale Telephone Exchange – OR, Bernard Telephone Company, Minburn Telecommunications, Lost Nation – Elwood, Arrowhead Communications Corp, Eagle Valley Telephone Company, Felton Telephone Company, and Granada Telephone Company. The following companies have changed their cash working capital methodology to a standard allowance methodology: Puerto Rico Telephone Company – Central and Puerto Rico Telephone Company.

- The allocation of Other Billing and Collecting (OB&C) expenses to the CL element associated with end user subscriber line billing is limited to 5 percent

Volume 2

DEVELOPMENT OF ACCESS ELEMENT REVENUE REQUIREMENT

Section 3

REVENUE REQUIREMENT DEVELOPMENT

To develop PYCOS and test period revenue requirements, NECA staff worked closely with the Group B and C cost companies to develop detailed Part 69 revenue requirement forecasts incorporating historical cost study information, budget and separations data in accordance with the Commission's rules and NECA guidelines. These baseline forecasts reflect 2003/2004 pool participation. NECA estimated Group D average schedule company settlements using the schedules resulting from the 2003 Modification of Average Schedules.

Revenue requirement projections reflect the shift of non-traffic sensitive costs of local switch line ports from traffic sensitive to common line, the reallocation of Transport Interconnection Charge (TIC) costs to all other access elements and the reallocation of a portion of General Support Facilities (GSF) costs to the billing and collection category for those companies that use general purpose computers to provide non-regulated billing and collection services as specified in the *MAG Order*.

In addition, NECA continues to reflect the impact of the *Separations Freeze Order* in the development of projected revenue requirements.⁷ Allocation factors and category relationships where applicable, in effect as of calendar year 2000, were frozen and used on a going-forward basis in the

⁷ Jurisdictional Separations and Referral to the Federal-State Joint Board, Report and Order, CC Docket No. 80-286, 16 FCC Rcd 11382 (2001) (*Separations Freeze Order*). For rate-of-return companies, the freeze of category relationships is optional. Eighty-seven rate-of-return study areas elected to freeze their category relationships.

test period.⁸

Section A describes the data collection effort and the methodology used to develop PYCOS and test period revenue requirements for Groups B, C, and D companies. Exhibit 1, Workpaper 1 provides a summary of prospective revenue requirement data by access element including the allocation of NECA expenses. Exhibit 2 displays historical and prospective cost data.

Section B describes the impacts of universal service support programs on revenue requirement and the methodology used to develop the PYCOS and test period universal service support program amounts.

A. POOL EXCHANGE CARRIER REVENUE REQUIREMENT AND ACCESS ELEMENT COST ALLOCATION (GROUPS B, C and D)

This section describes the methods used to develop PYCOS and projected test year revenue requirements for Group B, C, and D companies. This section also discusses the processes used to disaggregate forecasted costs to Part 69 access element investment and expenses.

1. Groups B and C Cost Companies

Budget and forecast data were requested from Group B and C study areas. Forecast data included investment, expenses, reserves, taxes and the basic separations components needed to develop revenue requirements by access element. The data form used to collect cost data from the Group B and C cost companies is included as Exhibit 3.

⁸ For those companies crossing an access line threshold, as specified in section 36.125(f), the Central Office Equipment (COE) category 3 allocation factor was revised in accordance with section 36.125(j). See 47 C.F.R. §§ 36.125(f), (j). In addition, if a company adds a new category of investment for which there is no data from calendar year 2000, they will calculate new factors, and category relationships if applicable, for the investment and then freeze the new factors for the duration of the freeze. See 47 C.F.R. §§ 36.3(a) and (b).

NECA worked closely with each company to develop allocator-based revenue requirements by Part 69 element. To do so, NECA collected detailed information necessary to process NECA's Part 36/69 allocation program, or collected Part 69 access element detail as processed through the companies' own Part 36/69 programs.⁹ These data were then aggregated to the NECA Pool level. Group B and C companies are, for the most part, annual cost companies; therefore, final data for the PYCOS period will not be available until the late-2003 time frame.¹⁰ To comply with PYCOS requirements, the data represent NECA's estimate of the 2002 results for 2003/2004 pool membership

NECA developed test period revenue requirement forecasts for Group B and C companies based on historical pool cost trends and the 2003 and 2004 cost data forecasted at the Part 69 level of detail described above, prior to the *MAG Order*. This forecasting process considered study area test period budget forecasts based on historical trended data and known changes.

Next, study area test period revenue requirement forecasts were adjusted to incorporate changes to reflect the rules implemented by the *MAG Order*. First, for those companies that use general purpose computers to provide non-regulated billing and collection services to IXC's, a portion of GSF costs associated with general purpose computers were allocated to billing and collection.¹¹ General purpose computers were allocated based on a modified version of the "Big Three" expense

⁹ In all cases, NECA staff compared forecast data with historical cost study data. NECA staff validates each LEC's cost study to ensure compliance with Commission rules.

¹⁰ See Volume 1, section 4.

¹¹ See *MAG Order* at ¶115. See also 47 C.F.R. § 69.307. Twenty-eight percent of the cost companies provide non-regulated billing and collection services to IXC's. Pursuant to requirements included in the 2002 *TRP Order*, these companies are listing in Appendix A. See July 2, 2002 Annual Access Charge Tariff Filings, WCB/Pricing 02-13, *Tariff Review Plans for Carriers Subject to Rate-of-Return Regulation*, 17 FCC Rcd 10552 (2002) (2002 *TRP Order*) at ¶ 9

factor in Part 69.¹² Remaining GSF costs were allocated using the existing GSF allocation methodology. The change in the general purpose computer allocation resulted in a shift in revenue requirement to billing and collection of approximately \$0.8 million. Exhibit 1, Workpaper 2 displays the impact of the change in allocation methodology for general purpose computers.

Second, rate-of-return companies were required in the *MAG Order* to shift the non-traffic sensitive line port costs from local switching to the common line category. Companies were given the option of performing a detailed cost study to determine the proportion of non-traffic sensitive line port costs, or to use a default of thirty percent of their local switching costs in lieu of performing detailed cost studies.¹³ Using test period forecast data, NECA applied the study area's line port factor to its local switching revenue requirement net of Local Switching Support (LSS) and transferred those amounts to the common line category.¹⁴ Exhibit 1, Workpaper 3 displays the reallocation of line port costs.

Third, NECA reallocated study area test period transport interconnection cost to other access categories in an amount equal to the cost recovered through the TIC for the twelve-month period

¹² See 47 C.F.R. § 69.307(e)

¹³ The following companies have utilized a different line port shift different than the 30 percent default: Golden Belt Telephone Association, Rural Telephone Service Company, All West Communications – UT and All West Communications – WY. In addition, the following companies, listed in NECA's 2002 Annual Tariff Filing, utilized a line port shift different from the 30 percent default: Horry Telephone Cooperative, Rock Hill Telephone Company, Millry Telephone Company, Glenwood Telephone Member, Hemingford Cooperative Telephone, Keystone-Arthur Telephone, Sully Buttes Telephone, Mutual Telephone Company, Rainbow Telephone Cooperative, Sunflower Telephone Company, Guadalupe Valley Telephone Company, Sunflower Telephone Company, Agate Telephone Company, Eastern Slope Rural, Big Sandy Telecom, Nucla-Naturita Telephone, Plains Cooperative Telephone Association, Columbine Acq Corp, and YCOM Network, Inc.

¹⁴ A line port shift factor of 30 percent was used for all companies except for those companies that indicated that they had line port costs different from the 30 percent default

ending June 30, 2001.¹⁵ The amount of a study area's transport cost that is reallocated is limited to the revenues the company recovered through the TIC charge for the 12-month period ending June 30, 2001. These TIC costs are reallocated to the other access elements (i.e., common line, local switching, information, special access), as well as to the local transport elements, based on each access element's projected revenue requirement divided by projected total access element revenue requirements. In determining the projected revenue requirements used in the TIC reallocation, the following adjustments were made: (1) local switching revenue requirement excludes LSS; (2) line port costs are reallocated from the local switching category to the common line category, (3) local transport revenue requirement excludes the TIC amounts to be reallocated; (4) the common line revenue requirement includes Long Term Support (LTS) and Interstate Common Line Support (ICLS); and (5) universal service contribution amounts are excluded. Exhibit 1, Workpaper 3 displays the reallocation of TIC revenue requirements.

To ensure that LEC cost projections were accurate, NECA took the following steps. First, NECA developed historical composite growth rates of key line items at both the total company and pool levels. These data were used in conjunction with budget and key separations data provided by the companies to review the accuracy of the test period projections. Where forecast data failed NECA's review, companies were contacted and any errors that were identified were corrected. If budget and separations data were not currently available, NECA relied on historical cost study information plus known changes. This combined information was used to process NECA's Part 36/69 forecast model to determine pool and access element revenue requirement for the three-year period 2002, 2003 and 2004. All forecast data were then aggregated to a total pool level, with 2003 and

¹⁵ See 47 C.F.R. § 69.415.

2004 data averaged to develop the test period forecasted revenue requirement Exhibit 4 summarizes revenue requirements and growth rates supporting this filing.

Final test period revenue requirement growth for each pool was then compared to the historical four-year average growth rate for the years 1998 through 2002. This represents a key validation procedure to ensure the accuracy of the aggregate cost company revenue requirement projections for each pool. In order to ensure a consistent comparison, however, the historical and test period data needs to be adjusted for the following:

- *MAG Order* changes beginning in 2002
- LECs converting from average schedule to cost-based settlements
- Acquisition of exchanges from Tier 1 LECs by NECA pool companies

These adjustments were made in the following manner: *MAG Order* changes were excluded from the data series; and the effects of average schedule to cost-based settlements conversions and acquisitions were removed from data for all years¹⁶

For the cost companies in NECA's CL Pool, the historical four-year annualized and test period growth rates prior to adjustments are 11.4 percent and 3.6 percent, respectively. After data adjustments, the historical four-year cost company annualized growth rate is 3.7 percent and the test period growth rate is 3.5 percent.

TS Switched Access revenue requirement growth trends result in a four-year average historical cost company growth rate of 0.5 percent and test period annualized growth rate of 4.3

¹⁶ See, e.g., National Exchange Carrier Association, Inc., Annual 2000 Access Tariff Filing, Transmittal No. 864, filed June 16, 2000, at Volume 2. Removing the full impact of all acquisitions and conversions that occurred from 1998 through the test period accounts for approximately \$229.2 million, \$110.8 million and \$28.8 million in test period CL, TS Switched access and TS Special Access cost company revenue requirements, respectively.

percent. After adjustments, test period growth for TS Switched Access for cost companies is 3.2 percent, which is the same as the normalized historical average of 3.2 percent.

TS Special Access results for cost companies reflect the substantial growth in special access demand quantities.¹⁷ Unadjusted test period growth for TS Special Access revenue requirements for NECA cost company Pool members is 26.6 percent compared with the four-year historical average growth rate of 37.2 percent. After adjustments, test period growth for TS Special Access for cost companies is 26.3 percent, which is below the adjusted historical average of 33.3 percent but consistent with the magnitude of the projected growth in special access demand quantities.

The results of this analysis are summarized on Exhibit 5.

2 Group D Companies

Group D companies' settlement amounts were developed by settlement function. Settlement function amounts were assigned to Part 69 elements (e.g., Local Switching, Transport). Settlement data was developed for PYCOS and the test period. PYCOS revenue requirements were produced using historical 2002 monthly settlements calculated using Average Schedule formulas in effect on July 1, 2002.¹⁸ Forecasted test period average schedule settlement projections were calculated based on the formulas filed in the 2003 Modification of Average Schedules and the projected level of demand quantities for the test year, and include the impacts of the *MAG Order*.

Exhibit 6 displays an attribution analysis to reconcile the test period Average Schedule forecast with the 2003 Modification of Average Schedules. The 2003 Modification of Average Schedules displays common line and traffic sensitive settlement levels, calculated using June 2002

¹⁷ See Volume 3 for discussion of special access demand growth.

¹⁸ Settlements for each month were adjusted to reflect expected remaining changes resulting from true-ups of pooling data developed using historical trends of pool true-up impacts

demand data. These values are displayed in Column (A) of Exhibit 6. In contrast, the 2003/2004 test period settlements use projected data. These values are shown in Column (L) of Exhibit 6. The reconciliation steps are shown in Column (B) through Column (K) and are explained in more detail by the titles and the footnotes on the exhibit.

3. NECA Expense Recovery

This filing reflects the Commission's rules governing NECA expense recovery.¹⁹ These rules require that Category I expenses associated with the preparation, defense, and modification of NECA tariffs, the administration of pooled receipts and distributions of exchange carrier revenues resulting from NECA tariffs, and NECA's participation in Commission proceedings involving Subpart G of Part 69 of the Commission's rules, be divided among three components in proportion to the revenues associated with each component.²⁰ The three components are:

- (1) Category I.A, expenses apportioned by the Universal Service Fund and Lifeline Assistance revenues.
- (2) Category I.B, expenses apportioned by the sum of NECA CL Pool and Long Term Support and Interstate Common Line Support revenues.
- (3) Category I.C, expenses apportioned by all other NECA interstate access charge revenues (*i e* , Traffic Sensitive)

Exhibit 7 displays NECA administrative expenses divided among the three components. In this filing, NECA allocated Category I.B expenses to each individual study area based on the proportion of

¹⁹ See 47 C.F.R. § 69.603.

²⁰ NECA expenses for administration of the interstate Telecommunications Relay Service fund are accounted for separately and are not included in access revenue requirements. See 47 C.F.R. § 64.604 (c)(4)(iii)(H). The recovery of the administrator's costs for Universal Service and Lifeline Assistance is now described in 47 C.F.R. § 54.701(d); these costs are not included in access revenue requirements.

the study area's common line revenue requirement to the total pool CL revenue requirement NECA allocated Category I.C (i.e., Traffic Sensitive) administrative expenses to study areas in a similar fashion and in addition allocated costs between switched access and special access rate elements based on the relative cost company revenue requirements.

4. Uncollectibles Projection

A projection for uncollectibles is also included in the development of the revenue requirement. NECA bases the projection on the historical uncollectibles prior to the Global Crossing and WorldCom bankruptcies. NECA estimates the uncollectible amount to be approximately \$0.3 million.

B. IMPACTS OF UNIVERSAL SERVICE SUPPORT PROGRAMS ON REVENUE REQUIREMENTS

1. Long Term Support (LTS)

LTS is calculated on a study area specific basis for eligible companies that participate in NECA's

NECA's CL pool.²¹ For each NECA CL pool study area LTS was initially calculated as the difference between the projected 1997 study area CCL revenue requirement and the 1997 CCL revenue. LTS amounts in subsequent years were calculated by applying a percentage change to the preceding year's levels.²² For 2003, each Common Line pool participant's 2002 level of unadjusted LTS is multiplied by the rate of growth in the Department of Commerce's Gross Domestic Product-Consumer Price Index (GDP-CPI), a 2.36 percent increase from 2002.²³ Projected 2003 amounts were again increased by 2.36 percent to estimate LTS for 2004. Test period LTS amounts are a composite of the 2003 levels for July through December 2003 and projected amounts for the first six months of 2004. Based on these calculations, the initial test period projection of LTS for NECA's CL pool participants would be \$512.6 million.

Section 54.303(b)(5) of the Commission's rules states, however, that the LTS amount for each eligible carrier is equal to the lesser of the LTS calculated based on the change in GDP-CPI described above, or the amount resulting by subtracting the sum of the study area's subscriber line charge revenues, CCL revenues, special access surcharge revenues, line port charge revenues from its projected common line revenue requirement.²⁴ Based on section 54.303(b)(5), NECA estimates that 116 study areas would experience a reduction in their projected LTS amount. This would result in a

²¹ See 47 C.F.R. § 54.303.

²² See 47 C.F.R. §§ 54.303(b)(2)-(4).

²³ See Universal Service Administrative Company, Federal Universal Service Support Mechanisms, Fund Size Projections and Contribution Base for the First Quarter 2003 at 14 (November 1, 2002).

²⁴ 47 C.F.R. § 54.303(b)(5). See also Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, CC Docket No. 00-256, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Order and Second Order on Reconsideration*, 17 FCC Rcd 11593 (2002).

revised projection of LTS for the 2003/2004 test period of \$485.4 million.

2. Interstate Common Line Support (ICLS)

In the *MAG Order*, the FCC created the Interstate Common Line Support (ICLS) mechanism as a explicit universal service support mechanism to gradually replace the CCL charge.²⁵ ICLS is calculated on a study area basis by subtracting the sum of the study area's projected end user revenue, CCL revenues, special access surcharge revenue, line port charge revenues and LTS from its projected common line revenue requirement. Test period ICLS for companies in NECA's common line pool is projected to be \$395.6 million.

3. Local Switching Support (LSS)

Study areas having fewer than 50,000 lines develop their COE Category 3 allocation factor based upon a weighting component equal to the difference between the 1996 weighted interstate DEM factor and the 1996 unweighted interstate DEM factor²⁶ plus the 2000 frozen interstate DEM factor. Eligible study areas having 50,000 or fewer access lines recover this weighting component from LSS rather than through interstate access rates. LSS is calculated by multiplying a study area's unseparated local switching revenue requirement by its LSS factor. The unseparated local switching revenue requirement is calculated based on a formula using specified investment, expense and reserve data as specified in section 54.301 of the Commission's rules.²⁷ The LSS factor is defined as the difference between the 1996 weighted interstate DEM factor and the 1996 unweighted interstate DEM factor.²⁸

²⁵ The CCL rate will be eliminated effective July 1, 2003. *See MAG Order* at ¶ 65.

²⁶ 47 C.F.R. § 36.125(f).

²⁷ 47 C.F.R. § 54.301(d).

²⁸ 47 C.F.R. § 54.301(a).

Based on projected data for NECA's TS pool companies, LSS amounts for 2003 are projected to be \$316.6 million, and amounts for 2004 are projected to be \$322.8 million. Test period LSS amounts of \$319.7 million are a composite of the 2003 levels for July through December 2003 and projected amounts for the first six months of 2004.

4. Universal Service Contributions

Section 17.7 (A) of NECA F.C.C. Tariff No. 5 lists NECA pool participants that contribute to Federal Universal Service fund. NECA's Universal Service Contribution requirement was calculated using a single contribution factor based on interstate and international end user telecommunications revenues or interstate retail revenue (IRR).²⁹

The projected Universal Service Contribution amount for NECA's CL Pool members are derived from data included in the FCC Public Notice and test period demand projections supplied to NECA by pool members. NECA CL pool companies report subscriber line charge revenues, subscriber line counts and Universal Service Contribution revenues. NECA followed these steps to develop its test period Universal Service Contribution projection:

- For companies that incur Universal Service Contribution expenses,³⁰ quarterly Interstate Retail revenue (IRR) for the test period was calculated as the sum of Subscriber Line Charge Revenue plus the Special Access Retail Revenue.
- Universal service contribution amounts were calculated for the test period by summing the IRR for each quarter for the test period³¹ and multiplying the resulting sum by the universal

²⁹ See 47 C.F.R. § 54.709 (a) (1).

³⁰ Section 17.7 of NECA F.C.C. Tariff No. 5 lists NECA pool participants that contribute to Federal Universal Service fund

³¹ The quarterly universal service contribution calculation used projected interstate retail revenues. The contribution base is the sum of the four quarters IRR beginning in 3Q2003

service contribution factor,³² assuming no change from the third quarter 2003 factor

Based on the above methodology, NECA projects the test period Universal Service Contribution amount for NECA's CL Pool members listed in Section 17.7 (A) NECA F.C.C Tariff No. 5 to be \$103.6 million. Exhibit 8 displays the projected test period Universal Service Contribution levels.

³² Proposed Third Quarter 2003 Universal Service Contribution Factor, CC Docket No. 96-45, *Public Notice*, DA 03-1909, released June 6, 2003.

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

**FORECASTED REVENUE REQUIREMENT
TEST PERIOD JULY 1, 2003 THROUGH JUNE 30, 2004
(Data in \$000)**

NECA's COMMON LINE POOL PARTICIPANTS

PAY TELEPHONE	\$0
INSIDE WIRE	\$0
BASE FACTOR PORTION	\$1,914,107
UNIVERSAL SERVICE CONTRIBUTIONS	\$103,649
TOTAL COMMON LINE	\$2,017,757

NECA's TRAFFIC SENSITIVE POOL PARTICIPANTS

LOCAL SWITCHING	\$597,613
LOCAL TRANSPORT	\$156,260
INFORMATION	\$4,020
TOTAL SWITCHED ACCESS	\$757,894
SPECIAL ACCESS	\$382,954

NOTE REVENUE REQUIREMENTS INCLUDE NECA EXPENSES

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
IMPACT OF GENERAL SUPPORT FACILITIES INVESTMENT ON REVENUE REQUIREMENT *

(Data in \$000)

	<u>Common Line</u>	<u>Local Switching</u>	<u>Local Transport</u>	<u>Other Switched Access</u>	<u>Total Switched Access</u>	<u>Special Access</u>	<u>Billing & Collection</u>
Prior to MAG Order General Purpose Computer allocation	\$431,196	\$154,378	\$55,354	\$2,721	\$212,453	\$121,920	\$29,297
With MAG Order General Purpose Computer allocation	\$430,791	\$154,243	\$55,305	\$2,721	\$212,269	\$121,881	\$30,090
\$ Impact	(\$405)	(\$135)	(\$49)	\$0	(\$184)	(\$39)	\$793
% Impact	-0.09%	-0.09%	-0.09%	0.00%	-0.09%	-0.03%	2.71%

Note: Impact based upon companies listed in Volume 2, Appendix A

*47 C.F.R. 69.307

Does not include NECA Expenses or Universal Service Contributions	Includes GSF rule changes
<p> NECA Expenses </p> <p> Universal Service Contributions </p>	<p> GSF rule changes </p>

RATE OF RETURN
HISTORICAL COST ANALYSIS SUMMARY (\$000)

----- COMMON LINE -----				
TEST YEAR FORECAST 1/02 THRU 12/02	PAY PHONE	INSIDE WIRE	BFP	TOTAL
	(I)	(J)	(K)	(L)
<u>REVENUES</u>				
100 Network Access	N/A	N/A	N/A	1,562,201
110 Uncollectibles	N/A	N/A	N/A	197
120 Common Line Support	N/A	N/A	N/A	0
130 Long Term Support * (NOTE 1)	N/A	N/A	N/A	314,056
135 Interstate Common Line Support (NOTE 2)	N/A	N/A	N/A	180,844
140 Transitional	N/A	N/A	N/A	0
150 Miscellaneous	N/A	N/A	N/A	0
160 Net Revenues	N/A	N/A	N/A	1,876,060
<u>EXPENSES</u>				
170 Plant Specific	0	0	235,006	235,006
171 Network Support	0	0	4,572	4,572
172 General Support	0	0	60,727	60,727
173 Central Office	0	0	24,679	24,679
174 Operator Systems	0	0	0	0
175 COE Switching	0	0	0	0
176 COE Transmission	0	0	24,679	24,679
177 IOT	0	0	270	270
178 Cable & Wire Facilities	0	0	143,333	143,333
180 Plant Non Specific excl Depr & Amort	0	0	76,616	76,616
190 Depreciation/Amortization	0	0	331,675	331,675
200 Customer Operations	0	0	60,027	60,027
201 Marketing	0	0	22,876	22,876
202 Local Business Office	0	0	31,530	31,530
203 Revenue Accounting	0	0	4,914	4,914
204 Other Billing and Collections	0	0	4,062	4,062
210 Access	N/A	N/A	N/A	0
215 Universal Service Contributions* (NOTE 3)	N/A	N/A	N/A	60,494
220 Corporate Operations	0	0	173,605	173,605
230 AFUDC	0	0	3,745	3,745
240 Other Expenses and Adjustments	0	0	(2,860)	(2,860)
250 Taxes Other than FIT	0	0	62,982	62,982
260 Total Expenses and Other Taxes	0	0	933,306	993,800
<u>NECA ADJUSTMENTS</u>				
261 NECA Administrative Expenses	0	0	26,039	26,039
262 Average Schedule Settlements	0	0	271,608	271,608
263 Adjustment for Line Port/TIC	0	0	241,032	241,032
264 Total NECA Adjustments	0	0	538,678	538,678
<u>FIT ADJUSTMENTS</u>				
270 Adjustments for FIT	0	0	49,613	49,613
280 Amortized ITC	0	0	580	580
290 Federal Income Taxes	0	0	80,874	80,874
300 TOTAL EXPENSES AND TAXES	0	0	1,552,858	1,613,353
<u>TELEPHONE PLANT IN SERVICE</u>				
310 General Support	0	0	602,212	602,212
320 Central Office Equipment - Switch	0	0	0	0
321 Operator Systems	0	0	0	0
322 Tandem Switching	0	0	0	0
323 Local Switching Cat 3	0	0	0	0
324 Equal Access	0	0	0	0
330 Central Office Equipment - Trans	0	0	777,398	777,398
331 Subscriber Line	0	0	777,398	777,398
332 Exchange Circuit	0	0	0	0
333 Interexchange Circuit	0	0	0	0
334 Host Remote	0	0	0	0
340 Cable and Wire	0	0	3,802,395	3,802,395
341 Subscriber Line	0	0	3,802,395	3,802,395
342 Exchange	0	0	0	0
343 Interexchange Circuit	0	0	0	0
344 Host Remote	0	0	0	0
350 Info Omg/Term Equipment	0	0	3,924	3,924
360 Amortizable Assets	0	0	18,730	18,730
370 Total Plant in Service	0	0	5,204,659	5,204,659
<u>ADJUSTMENTS TO TPIS</u>				
380 Depreciation/Amortization Reserve	0	0	2,866,719	2,866,719
390 Accum Deferred Income Tax	0	0	143,352	143,352
400 Other Rate Base Adjustments	0	0	140,587	140,587
<u>RETURN DATA</u>				
410 Average Rate Base	0	0	2,335,175	2,335,175
420 Return	0	0	262,707	262,707
430 Rate of Return	11.25%	11.25%	11.25%	11.25%

NOTE 1 Long-Term Support is recovered from the universal service support program

NOTE 2 Interstate Common Line Support became effective 7/1/2002

NOTE 3 Universal service include amounts for both Cost and Average Schedule companies

RATE OF RETURN
HISTORICAL COST ANALYSIS SUMMARY (\$000)

----- SWITCHED TRAFFIC SENSITIVE -----									
TEST YEAR FORECAST 1/02 THRU 12/02	LOCAL SWITCHING	EQUAL ACCESS	SS7	INFORMATION	TANDEM SWITCHING	LOCAL TRANSPORT	HOST REMOTE	TOTAL SWITCH TRFFC SNSTV	SPECIAL ACCESS
	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	(U)
REVENUES									
100 Network Access	253 000	0	0	3 899	12 641	96 827	35 089	401 456	268 456
110 Uncollectibles * (NOTE 1)	201	0	0	0	8	64	45	320	114
120 Local Switching Support * (NOTE 2)	303 846	N/A	N/A	N/A	N/A	N/A	N/A	303,846	N/A
130 N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
135 N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
140 N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
150 Miscellaneous	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
160 Net Revenues	556 645	0	0	3,899	12,633	96,763	35,044	704 983	268 342
EXPENSES									
170 Plant Specific	100,989	0	0	0	2 533	18 827	6 274	128 623	29,810
171 Network Support	1 473	0	0	0	49	344	115	1 981	800
172 General Support	15,921	0	0	0	515	4 963	1,680	23 079	7 818
173 Central Office	83 358	0	0	0	1,969	7,796	2 152	95,275	10 707
174 Operator Systems	34	0	0	0	0	0	0	34	0
175 COE Switching	83 323	0	0	0	1 969	0	0	85,292	0
176 COE Transmission	0	0	0	0	0	7 796	2 152	9 948	10 707
177 IOT	0	0	0	0	0	0	0	0	0
178 Cable & Wire Facilities	0	0	0	0	0	5 724	2,327	8 051	10 150
180 Plant Non Spec excl Depr & Amort	20,879	0	0	0	515	6,350	1 992	29,737	9 917
190 Depreciation/Amortization	117 479	0	0	0	2 726	30 396	10,333	160 934	48 904
200 Customer Operations	22 918	0	0	2 472	402	6 320	1 985	34 098	10 698
201 Marketing	4 493	0	0	0	95	1,274	385	6 246	2 504
202 Local Business Office	5 167	0	0	0	106	1 694	444	7 410	2 775
203 Revenue Accounting	12 603	0	0	0	200	3 272	1 123	17,197	5,261
204 Other Billing and Collections	0	0	0	0	0	0	0	0	0
210 Access	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
220 Corporate Operations	71 609	0	0	1 088	1 487	14,722	4 651	93,558	22,495
230 AFUDC	1 010	0	0	0	27	394	107	1 538	480
240 Other Expenses and Adjustments	(307)	0	0	0	13	(77)	(12)	(383)	(124)
250 Taxes Other than FIT	13,924	0	0	1	318	5 133	1,317	20 692	6 782
260 Total Expenses and Other Taxes	346 482	0	0	3 561	7 966	81 278	26,433	465 720	128 002
NECA ADJUSTMENTS									
261 NECA Administrative Expenses	7 140	0	0	0	181	2 108	771	10,200	3 858
262 Average Schedule Settlements	194 217	0	0	0	3 538	70,602	9 609	277,966	75,205
263 Adjustment for Line Port/TIC	(74 523)	0	0	338	(1 232)	(90,140)	(11 088)	(176 644)	13,962
264 Total NECA Adjustments	126,835	0	0	338	2 487	(17,430)	(708)	111,522	93 025
FIT ADJUSTMENTS									
270 Adjustments for FIT	12 138	0	0	0	243	4 746	1,425	18 552	6 026
280 Amortized ITC	194	0	0	0	6	96	41	337	90
290 Federal Income Taxes	19 189	0	0	0	326	7 795	1 503	28 813	11 809
300 TOTAL EXPENSES AND TAXES	492 506	0	0	3 899	10,779	71 643	27 228	606 055	232,836
TELEPHONE PLANT IN SERVICE									
310 General Support	182,635	0	0	0	5 470	56,554	21 059	265,718	84,914
320 Central Office Equipment - Switch	1,131,746	0	0	0	32 312	0	0	1,164 058	0
321 Operator Systems	103	0	0	0	0	0	0	103	0
322 Tandem Switching	0	0	0	0	32 312	0	0	32 312	0
323 Local Switching Cat 3	1,125,264	0	0	0	0	0	0	1,125 264	0
324 Equal Access	6 379	0	0	0	0	0	0	6,379	0
330 Central Office Equipment - Trans	0	0	0	0	0	211,933	58 399	270 332	302 384
331 Subscriber Lines	0	0	0	0	0	0	0	0	140,937
332 Exchange Circuit	0	0	0	0	0	409	0	409	121,523
333 Interexchange Circuit	0	0	0	0	0	211 524	0	211 524	38 871
334 Host Remote	0	0	0	0	0	0	58,399	58 399	1 054
340 Cable and Wire	0	0	0	0	0	160 460	69 594	230 053	275 716
341 Subscriber Lines	0	0	0	0	0	0	0	0	108,443
342 Exchange	0	0	0	0	0	1,999	0	1 999	80,133
343 Interexchange Circuit	0	0	0	0	0	158 461	0	158,461	87 141
344 Host Remote	0	0	0	0	0	0	69 594	69 594	0
350 Info Omg/Term Equipment	0	0	0	0	0	0	0	0	0
360 Amortizable Assets	5 435	0	0	0	143	15,625	999	22 200	9 190
370 Total Plant in Service	1,319 816	0	0	0	37,925	444 571	150,050	1 952,361	672 205
ADJUSTMENTS TO TPIS									
380 Depreciation/Amortization Reserve	762 506	0	0	0	22,281	231,767	84 577	1,101 131	364,710
390 Accum. Deferred Income Tax	40 143	0	0	0	739	8,817	2 120	51 819	15 931
400 Other Rate Base Adjustments	52,956	0	0	0	1 575	19 299	6,119	79 949	24 047
RETURN DATA									
410 Average Rate Base	570 123	0	0	0	16 480	223 286	69 472	879 361	315,611
420 Return	64 139	0	0	0	1,854	25 120	7 816	98 928	35,506
430 Rate of Return	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%

NOTE 1 Uncollectibles excludes Global Crossing and WorldCom bankruptcies

NOTE 2 Local Switching Support is recovered from the universal service support program

----- COMMON LINE -----				
TEST YEAR FORECAST 7/03 THRU 6/04	PAY PHONE	INSIDE WIRE	BFP	TOTAL
	(I)	(J)	(K)	(L)
<u>REVENUES</u>				
100 Network Access	N/A	N/A	N/A	1 136 753
110 Uncollectibles	N/A	N/A	N/A	53
120 Common Line Support	N/A	N/A	N/A	0
130 Long Term Support * (NOTE 1)	N/A	N/A	N/A	485,385
135 Interstate Common Line Support (NOTE 1)	N/A	N/A	N/A	395 618
140 Transitional	N/A	N/A	N/A	0
150 Miscellaneous	N/A	N/A	N/A	0
160 Net Revenues	N/A	N/A	N/A	2 017 704
<u>EXPENSES</u>				
170 Plant Specific	0	0	253 474	253 474
171 Network Support	0	0	5 028	5 028
172 General Support	0	0	66 634	66,634
173 Central Office	0	0	26 499	26 499
174 Operator Systems	0	0	0	0
175 COE Switching	0	0	0	0
176 COE Transmission	0	0	26 499	26 499
177 IOT	0	0	280	280
178 Cable & Wire Facilities	0	0	153 534	153 534
180 Plant Non Specific excl Depr & Amort	0	0	82 894	82 894
190 Depreciation/Amortization	0	0	361 014	361 014
200 Customer Operations	0	0	65 439	65,439
201 Marketing	0	0	25 586	25,586
202 Local Business Office	0	0	33 767	33 767
203 Revenue Accounting	0	0	5 329	5 329
204 Other Billing and Collections	0	0	4 429	4 429
210 Access	N/A	N/A	N/A	0
215 Universal Service Contributions* (NOTE 2)	N/A	N/A	N/A	103 649
220 Corporate Operations	0	0	188 251	188,251
230 AFUDC	0	0	3 770	3 770
240 Other Expenses and Adjustments	0	0	(4,416)	(4 416)
250 Taxes Other than FIT	0	0	70 183	70,183
260 Total Expenses and Other Taxes	0	0	1,013 068	1 116 718
<u>NECA ADJUSTMENTS</u>				
261 NECA Administrative Expenses	0	0	27 029	27 029
262 Average Schedule Settlements	0	0	279 638	279 638
263 Adjustment for Line Port/TIC	0	0	255 487	255 487
264 Total NECA Adjustments	0	0	562 155	562 155
<u>FIT ADJUSTMENTS</u>				
270 Adjustments for FIT	0	0	50 533	50 533
280 Amortized ITC	0	0	568	568
290 Federal Income Taxes	0	0	79 900	79 900
300 TOTAL EXPENSES AND TAXES	0	0	1 655 123	1 758,773
<u>TELEPHONE PLANT IN SERVICE</u>				
310 General Support	0	0	634 932	634,932
320 Central Office Equipment - Switch	0	0	0	0
321 Operator Systems	0	0	0	0
322 Tandem Switching	0	0	0	0
323 Local Switching Cat 3	0	0	0	0
324 Equal Access	0	0	0	0
330 Central Office Equipment - Trans	0	0	874,241	874 241
331 Subscriber Line	0	0	874 241	874,241
332 Exchange Circuit	0	0	0	0
333 Interexchange Circuit	0	0	0	0
334 Host Remote	0	0	0	0
340 Cable and Wire	0	0	4,131 583	4 131 583
341 Subscriber Line	0	0	4 131 583	4,131,583
342 Exchange	0	0	0	0
343 Interexchange Circuit	0	0	0	0
344 Host Remote	0	0	0	0
350 Info Ong/Term Equipment	0	0	3 579	3,579
360 Amortizable Assets	0	0	27 570	27 570
370 Total Plant in Service	0	0	5 671 906	5,671,906
<u>ADJUSTMENTS TO TPIS</u>				
380 Depreciation/Amortization Reserve	0	0	3 351,023	3,351 023
390 Accum Deferred Income Tax	0	0	152 982	152,982
400 Other Rate Base Adjustments	0	0	133 709	133 709
<u>RETURN DATA</u>				
410 Average Rate Base	0	0	2 301 610	2 301 610
420 Return	0	0	258,931	258 931
430 Rate of Return	11 25%	11 25%	11 25%	11 25%

NOTE 1 Long Term Support and Interstate Common Line Support (ICLS) is recovered from the universal service support program

NOTE 2 Universal service include amounts for both Cost and Average Schedule companies

RATE OF RETURN
PROSPECTIVE COST ANALYSIS SUMMARY (\$000)

----- SWITCHED TRAFFIC SENSITIVE -----									
TEST YEAR FORECAST 7/03 THRU 6/04	LOCAL SWITCHING	EQUAL ACCESS	SS7	INFORMATION	TANDEM SWITCHING	LOCAL TRANSPORT	HOST REMOTE	TOTAL SWITCH TRFFC SNSTV	SPECIAL ACCESS
	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	(U)
REVENUES									
100 Network Access	277 953	0	0	4 020	13 027	106 830	36,403	438 233	382 954
110 Uncollectibles	112	0	0	2	1	165	1	280	20
120 Local Switching Support * (NOTE 1)	319,660	N/A	N/A	N/A	N/A	N/A	N/A	319 660	N/A
130 N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
135 N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
140 N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
150 Miscellaneous	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
160 Net Revenues	597 501	0	0	4 018	13 026	106 665	36 402	757 613	382 934
EXPENSES									
170 Plant Specific	112 164	0	0	0	2 767	20 383	6 580	141 893	42 675
171 Network Support	1 612	0	0	0	51	367	123	2 154	1 188
172 General Support	17 679	0	0	0	557	5 533	1,789	25 557	11 543
173 Central Office	92 617	0	0	0	2 158	8 236	2 226	105 237	15 122
174 Operator Systems	27	0	0	0	0	0	0	27	0
175 COE Switching	92 590	0	0	0	2 158	0	0	94,749	0
176 COE Transmission	0	0	0	0	0	8 236	2,226	10,462	15 122
177 IOT	0	0	0	0	0	0	0	0	0
178 Cable & Wire Facilities	0	0	0	0	0	6 247	2,443	8 689	14,469
180 Plant Non Spec excl Depr & Amort	22,362	0	0	0	536	6 917	2,118	31,932	14 394
190 Depreciation/Amortization	127 803	0	0	0	2 817	33,372	10,519	174 511	74 591
200 Customer Operations	24 879	0	0	2 568	412	6 784	2 124	36 768	15 570
201 Marketing	4 958	0	0	0	99	1 392	428	6,878	3 774
202 Local Business Office	5,510	0	0	0	105	1 836	462	7 912	3 976
203 Revenue Accounting	13 501	0	0	0	205	3 466	1 198	18 370	7 577
204 Other Billing and Collections	0	0	0	0	0	0	0	0	0
210 Access	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
220 Corporate Operations	76,299	0	0	1 115	1,537	15,705	4,746	99,403	31,320
230 AFUDC	937	0	0	0	25	510	96	1 569	544
240 Other Expenses and Adjustments	(253)	0	0	0	7	(87)	(9)	(343)	(219)
250 Taxes Other than FIT	14 186	0	0	1	326	5 163	1,351	21,026	9 771
260 Total Expenses and Other Taxes	376 502	0	0	3 684	8,375	87 726	27 334	503 622	187 558
NECA ADJUSTMENTS									
261 NECA Administrative Expenses	8,569	0	0	0	126	1,476	540	10 711	5 410
262 Average Schedule Settlements	216,012	0	0	0	5 348	78,583	10 917	310,860	107,223
263 Adjustment for Line Port/TIC	(82 189)	0	0	334	(2 931)	(95 891)	(11 517)	(192,194)	16 748
264 Total NECA Adjustments	142 392	0	0	334	2 543	(15 833)	(59)	129,377	129 381
FIT ADJUSTMENTS									
270 Adjustments for FIT	12,457	0	0	0	237	5 682	1 465	19 842	8 393
280 Amortized ITC	188	0	0	0	6	96	41	330	117
290 Federal Income Taxes	17 796	0	0	0	309	8,168	1,451	27,724	18,076
300 TOTAL EXPENSES AND TAXES	536,690	0	0	4,018	11,227	80 062	28,725	660 722	335 014
TELEPHONE PLANT IN SERVICE									
310 General Support	192 932	0	0	0	5 652	60,402	21,741	280 728	117 866
320 Central Office Equipment - Switch	1 224 979	0	0	0	34,003	0	0	1 258 982	0
321 Operator Systems	87	0	0	0	0	0	0	87	0
322 Tandem Switching	0	0	0	0	34 003	0	0	34,003	0
323 Local Switching Cat 3	1 218,332	0	0	0	0	0	0	1 218 332	0
324 Equal Access	6 560	0	0	0	0	0	0	6 560	0
330 Central Office Equipment - Trans	0	0	0	0	0	228 336	61,731	290 066	443,308
331 Subscriber Lines	0	0	0	0	0	0	0	0	200,083
332 Exchange Circuit	0	0	0	0	0	432	0	432	182 813
333 Interexchange Circuit	0	0	0	0	0	227 904	0	227,904	58 794
334 Host Remote	0	0	0	0	0	0	61 731	61 731	1 618
340 Cable and Wire	0	0	0	0	0	180 719	73 536	254 255	389 357
341 Subscriber Lines	0	0	0	0	0	0	0	0	153 846
342 Exchange	0	0	0	0	0	2,034	0	2 034	114 493
343 Interexchange Circuit	0	0	0	0	0	178 685	0	178 685	121,018
344 Host Remote	0	0	0	0	0	0	73 536	73 536	0
350 Info Orig/Term Equipment	0	0	0	0	0	0	0	0	0
360 Amortizable Assets	8 125	0	0	0	137	18 856	1,165	28 283	30,222
370 Total Plant in Service	1,426,036	0	0	0	39,793	488 313	158,172	2,112 314	980 753
ADJUSTMENTS TO TPIS									
380 Depreciation/Amortization Reserve	894 759	0	0	0	24,616	267 297	93 499	1 280 172	561 350
390 Accum Deferred Income Tax	41,663	0	0	0	751	9 304	2 106	53 824	23,809
400 Other Rate Base Adjustments	50,928	0	0	0	1 561	24 767	5 672	82 928	30,362
RETURN DATA									
410 Average Rate Base	540 542	0	0	0	15 987	236 477	68 239	861 246	425 956
420 Return	60 811	0	0	0	1 799	26 604	7 677	96 890	47,920
430 Rate of Return	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%	11 25%

NOTE 1 Local Switching Support is recovered from the universal service support program

PART 69 LEVEL OF DETAIL

						(Enter as a Label)													
						TAX STATUS		(Y) Taxable or (N) Exempt											
						BASE YEAR		2001											
						FORECAST PERIOD													
ITEM	FORECASTED TOTAL COMPANY		TOTAL INTERSTATE		COMMON LINE		SWITCHED ACCESS				SPECIAL ACCESS		B&C+IX OTHER						
							TRANSPORT	LOCAL SWITCHING	INFORMATION										
UNCOLLECTIBLES			\$0																
AFUDC			\$0																
PLANT SPECIFIC			\$0																
PLNT NON SPEC x/D&A			\$0																
CUST OPER MARKETING			\$0																
CUST OPER SERVICES			\$0																
CORP OPERATIONS			\$0																
ACCESS			\$0																
DEPRECIATION & AMORT			\$0																
FCC EXP ADJUSTMENT			\$0																
EQUAL ACCESS EXPENSE			\$0																
TOT EXP LESS TAXES			\$0				\$0	\$0	\$0	\$0	\$0	\$0	\$0						
OTHER INCOME & EXP			\$0																
SIT EC AMT IS AMT			\$0																
GRT EC AMT IS AMT			\$0																
OTH ST AND LOC TAXES			\$0																
TOTAL OTHER TAXES			\$0				\$0	\$0	\$0	\$0	\$0	\$0	\$0						
TOTAL EXPENSES			\$0				\$0	\$0	\$0	\$0	\$0	\$0	\$0						

COMPANY NAME	STUDY AREA CODE	TAX STATUS	BASE YEAR	FORECAST PERIOD
ALCOA	01	1	1982	1983-1985
ALCOA	02	1	1982	1983-1985
ALCOA	03	1	1982	1983-1985
ALCOA	04	1	1982	1983-1985
ALCOA	05	1	1982	1983-1985
ALCOA	06	1	1982	1983-1985
ALCOA	07	1	1982	1983-1985
ALCOA	08	1	1982	1983-1985
ALCOA	09	1	1982	1983-1985
ALCOA	10	1	1982	1983-1985
ALCOA	11	1	1982	1983-1985
ALCOA	12	1	1982	1983-1985
ALCOA	13	1	1982	1983-1985
ALCOA	14	1	1982	1983-1985
ALCOA	15	1	1982	1983-1985
ALCOA	16	1	1982	1983-1985
ALCOA	17	1	1982	1983-1985
ALCOA	18	1	1982	1983-1985
ALCOA	19	1	1982	1983-1985
ALCOA	20	1	1982	1983-1985
ALCOA	21	1	1982	1983-1985
ALCOA	22	1	1982	1983-1985
ALCOA	23	1	1982	1983-1985
ALCOA	24	1	1982	1983-1985
ALCOA	25	1	1982	1983-1985
ALCOA	26	1	1982	1983-1985
ALCOA	27	1	1982	1983-1985
ALCOA	28	1	1982	1983-1985
ALCOA	29	1	1982	1983-1985
ALCOA	30	1	1982	1983-1985
ALCOA	31	1	1982	1983-1985
ALCOA	32	1	1982	1983-1985
ALCOA	33	1	1982	1983-1985
ALCOA	34	1	1982	1983-1985
ALCOA	35	1	1982	1983-1985
ALCOA	36	1	1982	1983-1985
ALCOA	37	1	1982	1983-1985
ALCOA	38	1	1982	1983-1985
ALCOA	39	1	1982	1983-1985
ALCOA	40	1	1982	1983-1985
ALCOA	41	1	1982	1983-1985
ALCOA	42	1	1982	1983-1985
ALCOA	43	1	1982	1983-1985
ALCOA	44	1	1982	1983-1985
ALCOA	45	1	1982	1983-1985
ALCOA	46	1	1982	1983-1985
ALCOA	47	1	1982	1983-1985
ALCOA	48	1	1982	1983-1985
ALCOA	49	1	1982	1983-1985
ALCOA	50	1	1982	1983-1985
ALCOA	51	1	1982	1983-1985
ALCOA	52	1	1982	1983-1985
ALCOA	53	1	1982	1983-1985
ALCOA	54	1	1982	1983-1985
ALCOA	55	1	1982	1983-1985
ALCOA	56	1	1982	1983-1985
ALCOA	57	1	1982	1983-1985
ALCOA	58	1	1982	1983-1985
ALCOA	59	1	1982	1983-1985
ALCOA	60	1	1982	1983-1985
ALCOA	61	1	1982	1983-1985
ALCOA	62	1	1982	1983-1985
ALCOA	63	1	1982	1983-1985
ALCOA	64	1	1982	1983-1985
ALCOA	65	1	1982	1983-1985
ALCOA	66	1	1982	1983-1985
ALCOA	67	1	1982	1983-1985
ALCOA	68	1	1982	1983-1985
ALCOA	69	1	1982	1983-1985
ALCOA	70	1	1982	1983-1985
ALCOA	71	1	1982	1983-1985
ALCOA	72	1	1982	1983-1985

(Enter as a Label)
(Y) Taxable or (N) Exempt

2001

FORECASTED TOTAL COMPANY	ITEM	TOTAL INTERSTATE	COMMON LINE	SWITCHED ACCESS			SPECIAL ACCESS	B+C+IX OTHER
				TRANSPORT	LOCAL SWITCHING	INFORMATION		
	FIXED CHARGES	\$0	\$	\$	\$	\$	\$	\$
	PATRONAGE DIVIDENDS	\$0	\$	\$	\$	\$	\$	\$
	OTHER ADJ	\$0	\$	\$	\$	\$	\$	\$
	ITC AMORTIZATION	\$0	\$	\$	\$	\$	\$	\$
	EXCESS DEFERRED TAXES	\$0	\$	\$	\$	\$	\$	\$
	SUPPORT PLANT	\$0	\$	\$	\$	\$	\$	\$
	OTHER SYSTEM EQUIP	\$0	\$	\$	\$	\$	\$	\$
	COE SW CAT 2 Tandem	\$0	\$	\$	\$	\$	\$	\$
	COE SW CAT 3 Local SW	\$0	\$	\$	\$	\$	\$	\$
	COE TRANS Cat 1	\$0	\$	\$	\$	\$	\$	\$
	COE TRANS Cat 2	\$0	\$	\$	\$	\$	\$	\$
	COE TRANS Cat 3	\$0	\$	\$	\$	\$	\$	\$
	C & W FACIL Cat 1	\$0	\$	\$	\$	\$	\$	\$
	C & W FACIL Cat 2	\$0	\$	\$	\$	\$	\$	\$
	C & W FACIL Cat 3	\$0	\$	\$	\$	\$	\$	\$
	C & W FACIL Cat 4	\$0	\$	\$	\$	\$	\$	\$
	NOT EQUIPMENT	\$0	\$	\$	\$	\$	\$	\$
	AMORTIZABLE ASSETS	\$0	\$	\$	\$	\$	\$	\$
	EQUAL ACCESS INVEST	\$0	\$	\$	\$	\$	\$	\$
	TOTAL PLANT	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	PROP HELD FUTURE USE	\$0	\$	\$	\$	\$	\$	\$
	PLANT UNDER CONST	\$0	\$	\$	\$	\$	\$	\$
	PLANT ACQ. ADJ	\$0	\$	\$	\$	\$	\$	\$
	INVEST IN NON AFF COS	\$0	\$	\$	\$	\$	\$	\$
	INVENTORIES	\$0	\$	\$	\$	\$	\$	\$
	CASH WORKING CAPITAL	\$0	\$	\$	\$	\$	\$	\$
	FCC INVESTMENT ADJ	\$0	\$	\$	\$	\$	\$	\$
	TOT OTI INVESTMENTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	OTH JURIS ASSETS NET	\$0	\$	\$	\$	\$	\$	\$
	ACCUMULATED DEPR	\$0	\$	\$	\$	\$	\$	\$
	ACCUMULATED AMORT	\$0	\$	\$	\$	\$	\$	\$
	DEFERRED FIT	\$0	\$	\$	\$	\$	\$	\$
	CUSTOMER DEPOSITS	\$0	\$	\$	\$	\$	\$	\$
	OTHER ACCRUED LIAB	\$0	\$	\$	\$	\$	\$	\$
	ALL OTHER RESERVES	\$0	\$	\$	\$	\$	\$	\$
	FCC RESERVE ADJ	\$0	\$	\$	\$	\$	\$	\$
	TOTAL RESERVES	\$0	\$0	\$0	\$0	\$0	\$0	\$0

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC

REVENUE REQUIREMENT COMPARISON

(Data in \$000)

NECA's COMMON LINE POOL

	PYCOS <u>1/02-12/02</u>	TEST PERIOD <u>7/03-6/04</u>	ANNUAL <u>PCT CHG</u>
<u>GROUP B and C COMPANIES</u>			
EXPENSES AND TAXES *	\$1,014,377	\$1,093,021	5 10%
AVERAGE NET INVESTMENT	\$2,335,175	\$2,301,610	-0 96%
NET RETURN @ 11 25%	\$262,707	\$258,931	-0 96%
ADJUSTMENT FOR LINE PORT/TIC	\$179,292	\$184,111	1 78%
REVENUE REQUIREMENT***	\$1,456,376	\$1,536,063	3 62%
<u>GROUP D COMPANIES</u>			
AVG SCHEDULE SETTLEMENTS***	\$271,608	\$279,638	1 96%
ADJUSTMENT FOR LINE PORT/TIC	\$61,740	\$71,377	10 15%
NECA EXPENSES	\$26,039	\$27,029	2 52%
UNIVERSAL SERVICE CONTRIBUTIONS	\$60,494	\$103,649	43 19%
<u>TOTAL NECA POOL</u>			
EXPENSES AND TAXES ** #	\$1,372,518	\$1,503,338	6 26%
AVERAGE NET INVESTMENT	\$2,335,175	\$2,301,610	-0 96%
NET RETURN @ 11 25%	\$262,707	\$258,931	-0 96%
ADJUSTMENT FOR LINE PORT/TIC	\$241,032	\$255,487	3 96%
REVENUE REQUIREMENT#	\$1,876,257	\$2,017,757	4 97%

* INCLUDES UNCOLLECTIBLES

** INCLUDES UNCOLLECTIBLES, AVG SCHED SETTLEMENTS AND NECA EXPENSES

***DOES NOT INCLUDE UNIVERSAL SERVICE CONTRIBUTIONS

INCLUDES UNIVERSAL SERVICE CONTRIBUTIONS

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC

REVENUE REQUIREMENT COMPARISON
(Data in \$000)

NECA's TRAFFIC SENSITIVE POOL

----- SWITCHED ACCESS -----

	<u>PYCOS</u> <u>1/02-12/02</u>	<u>TEST PERIOD</u> <u>7/03-6/04</u>	<u>ANNUAL</u> <u>PCT CHG</u>
<u>GROUP B and C COMPANIES</u>			
EXPENSES AND TAXES *	\$494,852	\$531,628	4 89%
AVERAGE NET INVESTMENT	\$879,361	\$861,246	-1 38%
NET RETURN @ 11 25%	\$98,928	\$96,890	-1 38%
ADJUSTMENT FOR LINE PORT/TIC	(\$117,224)	(\$121,229)	2 26%
REVENUE REQUIREMENT	\$476,557	\$507,289	4 25%
<u>GROUP D COMPANIES</u>			
AVG SCHEDULE SETTLEMENTS	\$277,966	\$310,860	7 74%
ADJUSTMENT FOR LINE PORT/TIC	(\$59,422)	(\$70,965)	12 56%
NECA EXPENSES	\$10,200	\$10,711	3 31%
<u>TOTAL NECA POOL</u>			
EXPENSES AND TAXES **	\$783,018	\$853,199	5 89%
AVERAGE NET INVESTMENT	\$879,361	\$861,246	-1 38%
NET RETURN @ 11 25%	\$98,928	\$96,890	-1 38%
ADJUSTMENT FOR LINE PORT/TIC	(\$176,645)	(\$192,194)	5 79%
REVENUE REQUIREMENT	\$705,301	\$757,895	4 91%

----- SPECIAL ACCESS -----

	<u>PYCOS</u> <u>1/02-12/02</u>	<u>TEST PERIOD</u> <u>7/03-6/04</u>	<u>ANNUAL</u> <u>PCT CHG</u>
<u>GROUP B and C COMPANIES</u>			
EXPENSES AND TAXES *	\$139,923	\$205,654	29 27%
AVERAGE NET INVESTMENT	\$315,611	\$425,956	22 13%
NET RETURN @ 11 25%	\$35,506	\$47,920	22 13%
ADJUSTMENT FOR LINE PORT/TIC	\$10,050	\$10,475	2 80%
REVENUE REQUIREMENT	\$185,480	\$264,049	26 55%
<u>GROUP D COMPANIES</u>			
AVG SCHEDULE SETTLEMENTS	\$75,205	\$107,223	26 68%
ADJUSTMENT FOR LINE PORT/TIC	\$3,912	\$6,273	37 00%
NECA EXPENSES	\$3,858	\$5,410	25 28%
<u>TOTAL NECA POOL</u>			
EXPENSES AND TAXES **	\$218,987	\$318,286	28 31%
AVERAGE NET INVESTMENT	\$315,611	\$425,956	22 13%
NET RETURN @ 11 25%	\$35,506	\$47,920	22 13%
ADJUSTMENT FOR LINE PORT/TIC	\$13,962	\$16,748	12 90%
REVENUE REQUIREMENT	\$268,455	\$382,954	26 72%

* INCLUDES UNCOLLECTIBLES

** INCLUDES UNCOLLECTIBLES, AVG SCHED SETTLEMENTS AND NECA EXPENSES

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
HISTORICAL COST TREND AND PROJECTION ANALYSIS
JULY 1, 2003 COST COMPANY TARIFF PARTICIPANTS
(\$ millions)

COMMON LINE			T/S SWITCHED ACCESS			T/S SPECIAL ACCESS		
Year	Revenue Requirement	Ann'l % Growth	Year	Revenue Requirement	Ann'l % Growth	Year	Revenue Requirement	Ann'l % Growth
1998	\$949.9	-----	1998	\$475.5	-----	1998	\$53.2	-----
1999	\$1,048.2	10.3%	1999	\$496.6	4.4%	1999	\$63.3	19.0%
2000	\$1,119.9	6.8%	2000	\$532.3	7.2%	2000	\$95.5	50.8%
2001	\$1,207.6	7.8%	2001	\$563.9	5.9%	2001	\$136.9	43.4%
2002	\$1,456.4	20.6%	2002	\$476.3	-15.5%	2002	\$185.4	35.4%
2003/2004	\$1,536.1	3.6%	2003/2004	\$507.3	4.3%	2003/2004	\$264.1	26.6%

	COMMON LINE		T/S SWITCHED		T/S SPECIAL	
	Line		Switched		Special	
Historical 4 Year Average (1998 to 2002) =	11.4%		0.5%		37.2%	
Historical 4 Year Average (1998 to 2002) Adjusted for acquisitions, conversions, new study areas and MAG Order =	3.7%		3.2%		33.3%	
Test Period Revenue Requirement excluding abnormal levels of acquisitions, conversions, new study areas and impact of MAG Order	\$1,122.8		\$393.5		\$235.3	
Test Period MAG Order Impact	\$184.1		-\$121.1		\$10.5	
Test Period RRQ growth over PYCOS, adjusted for abnormal levels of acquisitions, conversions and new study areas	3.5%		3.2%		26.2%	

** Note Common Line excludes Universal Service Contributions

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC
2003 ANNUAL ACCESS FILING
AVERAGE SCHEDULE SETTLEMENT ATTRIBUTION ANALYSIS
(\$000,000)

VOLUME 2
EXHIBIT 6

SETTLEMENT ELEMENT	COMPARISON SETTLEMENT NOTE 1 (A)	FILING UPDATE NOTE 2 (B)	COST CONVERSIONS NOTE 3 (C)	ADJUSTED SETTLEMENT A+B-C (D)	SEASONALLY ADJUSTED NOTE 4 (E)	ANNUALIZED SETTLEMENTS 12 x E (F)	ANNUAL GROWTH RATIO NOTE 5 (G)	18 MONTH GROWTH RATIO (G-1) * 1.5+1 (H)	TS POOL EXITS & ENTRIES NOTE 6 (I)	TEST PERIOD REV REQ w/o M + A FXH+I (J)	NEW STUDY AREA & ACQUISITIONS (K)	TEST PERIOD (L)
COMMON LINE	29 740	-0 168	0 754	28 818	28 689	344 266	0 9992	0 9909	9 518	350 667	0 348	351 015
USF CONTRIBUTION	1 061	-0 162	0 027	0 872	1 023	12 280	0 9992	0 9909	0 477	12 646	0 006	12 652
TOTAL CL	30 801	-0 330	0 781	29 690	29 712	356 546	0 0000	1 0000	9 995	363 313	0 354	363 667
CENTRAL OFFICE	14 598	-0 273	0 371	13 954	14 192	170 301	1 0072	1 0108	6 377	178 518	0 392	178 910
DISTANCE SENSITIVE	1 603	0 313	0 025	1 891	1 906	22 873	0 0000	1 0000	1 417	26 681	0 132	26 813
- DS MILEAGE DRIVEN	0 980	0 119	0 011	1 088	1 096	13 154	1 1158	1 1738	0 866	16 305	0 081	16 386
- DS MINUTES DRIVEN	0 624	0 194	0 014	0 804	0 810	9 720	1 0072	1 0108	0 551	10 376	0 052	10 427
NON DISTANCE SENSITIVE	1 289	0 184	0 024	1 449	1 453	17 431	1 0496	1 0744	0 909	19 637	0 056	19 693
INTERTOLL	0 183	0 071	0 001	0 253	0 256	3 067	1 0728	1 1092	0 097	3 499	0 000	3 499
SS7	0 870	0 004	0 021	0 853	0 854	10 251	1 0000	1 0000	0 352	10 602	0 000	10 602
EQUAL ACCESS	0 034	-0 001	0 001	0 032	0 031	0 366	1 0000	1 0000	0 010	0 377	0 000	0 377
NXX TRANSLATION	0 000	0 000	0 000	0 000	0 000	0 000	0 0000	1 0000	0 000	0 000	0 000	0 000
TS SWITCHED	18 577	0 298	0 443	18 432	18 692	224 289	0 0000	1 0000	9 162	239 314	0 580	239 894
SPECIAL ACCESS	5 930	0 186	0 122	5 994	6 355	76 262	1 3011	1 4517	2 636	113 342	0 153	113 495
TOTAL TS	24 507	0 484	0 565	24 426	25 047	300 551	0 0000	1 0000	11 798	352 656	0 733	353 389
TOTAL	55 308	0 154	1 346	54 116	54 759	657 097	0 0000	1 0000	21 793	715 969	1 087	717 056

- (1) FROM NECA'S DECEMBER 2002 AVERAGE SCHEDULE ANNUAL FILING EXHIBIT 7 12
- IT REFLECTS OCTOBER 2002 VIEW OF JULY 2002 DEMAND DATA WITH SETTLEMENTS REFLECTING THE REASSIGNMENT OF MAC SHIFTS
- (2) EFFECTS OF TRUE-UPS SINCE DECEMBER 2002 FILING, DIFFERENCE IN BASIS OF SPECIAL ACCESS FORECAST AND TREND SHIFT FROM INTERTOLL TO LINE HAUL
- (3) BASED ON DATA OF COMPANIES THAT CONVERTED TO COST SETTLEMENTS
- (4) COMPARES JUNE 2002 DEMAND TO THE AVERAGE MONTH OF 2002
- (5) DERIVED FROM NECA'S 2002 STUDY OF AVERAGE SCHEDULES AND FROM STUDIES SUPPORTING THIS FILING
- (6) REFLECTS DATA OF STUDY AREAS THAT LEFT OR JOINED THE TS POOL AFTER JULY 2003

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC
CATEGORY I ADMINISTRATIVE COSTS
JULY 1, 2003 THROUGH JUNE 30, 2004
(IN MILLIONS)

<u>CATEGORY</u>	<u>PROJECTED REVENUES</u>	<u>PCT OF TOTAL</u>	<u>AMOUNT</u>
Universal Service Fund and Lifeline Assistance - I A	\$0 0	0 0%	\$0 0
End User Common Line, Carrier Common Line, Special Access Surcharge, Long Term Support and Interstate Common Line Support - I B	\$1,887 1	62 6%	\$27 0
Other Association Access Charges - I C **	\$1,125 5	37 4%	\$16 1
	=====	=====	=====
	\$3,012 5	100 0%	\$43 2

** Category I C is split into Traffic Sensitive Switched Access and Traffic Sensitive Special Access based on projected access element revenues

June 16, 2003 NECA Access Charge Filing

JULY 1, 2003 - JUNE 30, 2004

UNIVERSAL SERVICE SUPPORT MECHANISM (USSM) CONTRIBUTION

Quarterly Access Lines and Quarterly Interstate Retail Revenue of USSM Contributors
(\$ in millions)

VOLUME 2
EXHIBIT 8

LINE NO	DATE	PROJECTED USSM END USER RETAIL REVENUE ¹ (A)	PROJECTED USSM SPECIAL ACCESS RETAIL REVENUE (B)	SOURCE / SUMMARY for Col B	PROJECTED INTERSTATE RETAIL REVENUE (IRR) (C = A + B)
1	1Q 2003		\$21.8	Note ²	
2	3Q 2003	\$246.0	\$24.7	Line 1 Col B * 1.066 ³	\$270.7
3	4Q 2003	\$245.7	\$26.3	Line 2 Col B * 1.066 ³	\$272.0
4	1Q 2004	\$245.2	\$28.1	Line 3 Col B * 1.066 ³	\$273.2
5	2Q 2004	\$245.2	\$29.9	Line 4 Col B * 1.066 ³	\$275.1
6	TP 0304	\$982.1	\$109.0	Sum of Line 2 through Line 5	\$1,091.0
7		3Q 2003 Contribution Factor		FCC Public Notice No DA 03-1909	9.5%
8		Total Test Period USSM Contribution		Line 6 * Line 7	\$103.6

NOTE

- 1 End user retail revenue is the sum of SLC revenue excluding life lines revenue, ISDN port revenue, and special access surcharges. NECA priced these revenue at proposed rates for 3Q 2003 through 2Q 2004.
- 2 Special access retail revenue is derived from NECA Settlement data by the formula below:
(FUSC Revenue - FUSC chargeable lines * basic line rate) / Contribution Factor, and
FUSC chargeable lines is defined as (total access lines - lifelines - 8/9 Centrex business lines).
- 3 Special access quarterly growth rate is estimated at 6.6%.

APPENDIX A

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
COMPANIES PROVIDED NON-REGULATED BILLING AND
COLLECTION SERVICES TO IXCS

<u>STUDY AREA NAME</u>	<u>STUDY AREA CODE</u>
ACE TEL ASSN-IA	351346
ACE TEL ASSN-MN	361346
ACE TEL OF MICHIGAN	310704
ALLTEL ALABAMA	250302
ALLTEL ARKANSAS INC	401691
ALLTEL CAROLINA-NO	230476
ALLTEL FLORIDA INC	210336
ALLTEL GEORGIA INC	220357
ALLTEL KENTUCKY	260402
ALLTEL MISSISSIPPI	280453
ALLTEL MISSOURI	421885
ALLTEL NY-FULTON	150106
ALLTEL NY-JAMESTOWN	150109
ALLTEL NY-RED JACKET	150113
ALLTEL OHIO INC	300665
ALLTEL OKLAHOMA INC	431965
ALLTEL PENNSYLVANIA	170176
ALLTEL SO CAROLINA	240517
AMELIA TEL CORP	190217
ARCTIC SLOPE TEL	613001
ARDMORE TEL CO	290280
ARIZONA TELEPHONE CO	452171
ARVIG TEL CO	361350
ASOTIN TEL - OR	532404
ASOTIN TEL - WA	522404
ATLANTIC MEMBERSHIP	230468
BADGER TELECOM, INC	330844
BARNARDSVILLE TEL CO	230469
BLACKFOOT TEL - BTC	482235
BLUE RIDGE TEL CO	220346
BRANTLEY TEL CO	220347
BRISTOL BAY TEL COOP	613003
BUSH-TELL INC	613004
BUTLER TEL CO	250284
CALAVERAS TEL CO	542301
CALHOUN CITY TEL CO	280448
CAL-ORE TELEPHONE CO	542311
CAMBRIDGE TEL CO	472215

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
COMPANIES PROVIDED NON-REGULATED BILLING AND
COLLECTION SERVICES TO IXCS

<u>STUDY AREA NAME</u>	<u>STUDY AREA CODE</u>
CAMDEN TEL & TEL CO	220351
CASCADE UTIL INC	532371
Cass County Tel Co	420472
CENTRAL STATE TEL CO	330859
CHATHAM TEL CO - MI	310685
CHAZY & WESTPORT	150079
CHICKASAW TEL CO	431980
CHURCHILL-CC COMM	552349
CLEVELAND COUNTY TEL	401698
COMANCHE COUNTY TEL	442060
COMM CORP OF INDIANA	320776
COMM CORP OF MI	310672
COMSOUTH TELECOMM	220369
CONNEAUT TEL CO	300606
CONTINENTAL OF OHIO	300607
COPPER VALLEY TEL	613006
CORDOVA TEL COOP	613007
CRAW-KAN TEL COOP	411818
DECATUR TEL CO INC	401699
DELL TEL CO-OP - NM	492066
DELL TEL CO-OP - TX	442066
DELTA COUNTY TEL CO	462184
DEPOSIT TEL CO	150089
DIRECT COMM-ROCKLAND	472232
DUBOIS TEL EXCHANGE	512291
DUNKIRK & FREDONIA	150091
DUO COUNTY TEL COOP	260401
EAST ASCENSION TEL	270429
EDWARDS TEL CO	150092
EGYPTIAN COOP ASSN	341003
ELKHART TEL CO INC	411764
ELLENSBURG TEL CO	522412
EMPIRE TEL CORP	150093
ENMR TEL COOP INC-NM	492262
ENMR TEL COOP-TX	442262
EVANS TEL CO	542315
FIDELITY TEL CO	421882
FILER MUTUAL TEL -ID	472220

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
COMPANIES PROVIDED NON-REGULATED BILLING AND
COLLECTION SERVICES TO IXCS

<u>STUDY AREA NAME</u>	<u>STUDY AREA CODE</u>
FILER MUTUAL TEL -NV	552220
FLAT ROCK TEL CO-OP	341012
FORT MILL TEL CO	240521
GERMANTOWN TEL CO	150097
GLENWOOD TEL MEMBER	371553
GOLDEN BELT TEL ASSN	411777
GOLDEN WEST TELECOMM	391659
GRAND RIVER MUT-MO	421888
GREEN HILLS TEL CORP	421890
GTC, INC	210291
GTC, INC	210329
GTC, INC	210339
HAMPDEN TEL CO	100010
HAPPY VALLEY TEL CO	542321
HARTLAND & ST ALBANS	100011
HELIX TEL CO	532376
HENDERSON CO-OP TEL	371559
HOME TEL CO	240527
HOME TEL CO-ST JACOB	341032
HOME TELEPHONE CO	532377
HOPPER TELECOMM CO	250300
HORNITOS TEL CO	542322
HORRY TEL COOP	240528
HUMPHREY'S COUNTY	290566
IL CONSOLIDATED TEL	341037
INLAND TEL CO -WA	522423
INLAND TEL-ID	472423
ISLAND TEL CO	100007
ISLAND TEL CO	310677
KEARSARGE TEL CO	120045
KERMAN TELEPHONE CO	542324
LAKE LIVINGSTON TEL	442104
LEACO RURAL TEL COOP	492264
LESLIE COUNTY TEL CO	260411
LEWIS RIVER TEL CO	522427
LEXCOM TELEPHONE CO	230483
LIGONIER TEL CO	320783
LITTLE MIAMI COMM	300613

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
COMPANIES PROVIDED NON-REGULATED BILLING AND
COLLECTION SERVICES TO IXCS

<u>STUDY AREA NAME</u>	<u>STUDY AREA CODE</u>
LUDLOW TEL CO	140058
MADISON TEL CO	341049
MAHANOEY & MAHANTONGO	170183
MATANUSKA TEL ASSOC	613015
MCCLELLANVILLE TEL	240533
MCDONOUGH TEL COOP	341047
MERCHANTS & FARMERS	320788
MID STATE TEL CO	361433
MID-AMERICA TEL INC	432010
MIDDLEBURGH TEL CO	150105
MIDWAY TEL CO	330909
MOAPA VALLEY TEL CO	552353
MT VERNON TEL CO	330917
NEW CASTLE TEL CO	193029
NEW FLORENCE TEL CO	421927
NEW LONDON TEL CO	421928
NEWPORT TEL CO	150107
NICHOLVILLE TEL CO	150108
NORTH ARKANSAS TEL	401713
NORTH CENTRAL COOP	290573
NORTHEAST FLORIDA	210335
NORTHEAST NEBRASKA	371576
NORTHFIELD TEL CO	140061
NORTHLAND TEL CO-ME	103313
Northland Tel Co-VT	143331
NUSHAGAK ELEC & TEL	613018
OKLAHOMA ALLTEL, INC	432011
OKLAHOMA COMM SYSTEM	431984
ONEIDA COUNTY RURAL	150111
ORCHARD FARM TEL CO	421934
ORISKANY FALLS TEL	150114
OTZ TEL COOPERATIVE	613019
PANHANDLE TEL COOP	432016
PATTERSONVILLE TEL	150116
PBT TELECOM, INC	240539
PEND OREILLE TEL	522418
PEOPLES RURAL COOP	260415
PEOPLES TEL CO	250314

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
COMPANIES PROVIDED NON-REGULATED BILLING AND
COLLECTION SERVICES TO IXCS

<u>STUDY AREA NAME</u>	<u>STUDY AREA CODE</u>
PEOPLES TEL COOP -TX	442130
PERKINSVILLE TEL CO	140062
PIEDMONT RURAL COOP	240538
PINE TELEPHONE CO	432017
PINELAND TEL COOP	220377
PIONEER TEL ASSN INC	411817
PIONEER TEL COOP	532393
PIONEER TEL COOP INC	432018
PORT BYRON TEL CO	150118
POTLATCH TEL CO INC	472230
PROJECT MUTUAL TEL	472231
QUINCY TEL CO-FL DIV	210338
QUINCY TEL CO-GA DIV	220338
ROSEVILLE TEL CO	542334
RURAL TEL CO - ID	472233
RURAL TEL CO - NV	552233
RURAL TEL SERVICE CO	411826
SALUDA MOUNTAIN TEL	230498
SANTA ROSA TEL COOP	442141
SE TEL OF WISCONSIN	330952
SHAWNEE TELEPHONE CO	341025
SHIAWASSEE TEL CO	310726
SMART CITY TEL LLC	210330
SOMERSET TEL CO	100024
SOUTHEAST MS TEL CO	283301
SOUTHERN MONTANA TEL	482254
SOUTHWESTERN TEL CO	452174
SPRINGPORT TEL CO	310728
ST STEPHEN TEL CO	240544
STANDARD TEL CO	220386
STOCKBRIDGE & SHERWD	330954
STOUTLAND TEL CO	421951
STRASBURG TEL CO	462207
SUGAR LAND TEL CO	442147
SUGAR VALLEY TEL CO	170206
TAYLOR TEL CO-OP INC	442151
TELLICO TEL CO	290578
TENNESSEE TEL CO	290575

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
COMPANIES PROVIDED NON-REGULATED BILLING AND
COLLECTION SERVICES TO IXCS

<u>STUDY AREA NAME</u>	<u>STUDY AREA CODE</u>
TENNEY TEL CO	330958
TEXAS-ALLTEL, INC	442153
THE CITIZENS MUTUAL	351129
THE PONDEROSA TEL CO	542332
TOWNSHIP TEL CO	150129
UNION TELEPHONE CO	512297
UTC OF TN	290581
UTELCO, INC	330963
VALLEY TELECOMM	391685
VENTURE COMM COOP	391680
VERNON TEL CO	150133
VOLCANO TEL CO	542343
WARREN TEL CO	100031
WEST PENOBSCOT TEL	100034
WESTERN RESERVE TEL	300666
WILLISTON TEL CO	240551
WILTON TEL CO - NH	120050
WINTERHAVEN TEL CO	542323
WOLVERINE TEL CO	310738
WYANDOTTE TEL CO	432034
XIT RURAL TEL CO-OP	442170
YCOM NETWORKS, INC	522453
YUKON TEL CO INC	613025



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03-9

80 South Jefferson Road
Whippany NJ 07981

Regina McNeil
Senior Attorney

Voice 973-884-8168
Fax 973-884-8008
E-mail rmcneil@neca.org

December 31, 2002

RECEIVED

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

DEC 31 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: National Exchange Carrier Association, Inc
2003 Modification of Average Schedules

Dear Ms. Dortch:

Attached is an original and five (5) copies of the "2003 Modification of Average Schedules" submitted by the National Exchange Carrier Association, Inc (NECA). This filing contains revised formulas for average schedule interstate settlement disbursements filed pursuant to section 69.606 of the Commission's rules, 47 C.F.R. § 69.606. Pursuant to this section, NECA is required to submit any proposed revisions to the formulas on or before December 31, 2001. These modifications are proposed to become effective on July 1, 2003.

Acknowledgement of receipt of this filing is requested. A duplicate letter is provided for this purpose.

Sincerely,

Attachments.

2003 Modification of Average Schedules
Service List

CERTIFICATE OF SERVICE

I hereby certify that a copy of the 2003 NECA Modification of Average Schedules was served on this 31st day of December 2002 by hand delivery or by first-class mail to the persons listed below.

By: 
Shawn O'Brien

The following parties were served:

Marlene H. Dortch*
Secretary
Federal Communications Commission
445 12th Street SW
TW-A325
Washington, DC 20554
(original and 5 copies)

Qualex International*
Portals II
445 12th Street SW
Room CY-B402
Washington, DC 20554

Tamara Preiss*
Pricing Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Judith Nitsche*
Pricing Policy Division
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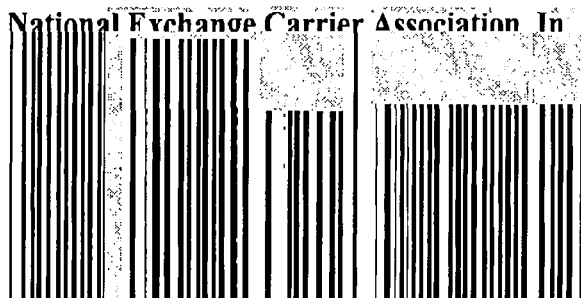
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2003

NECA MODIFICATION OF AVERAGE SCHEDULES

December 31, 2002



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SUMMARY

The National Exchange Carrier Association, Inc. (NECA) submits revised interstate average schedule formulas for Federal Communications Commission (FCC or Commission) approval, scheduled to be effective from July 1, 2003 through June 30, 2004. When approved, NECA will use these formulas to compute interstate access compensation (or settlements) for average schedule companies, that simulate the disbursements that would be received by representative cost companies

NECA estimates carriers can expect, on average, an overall settlement increase of 3.97% as a result of the new formulas.

Impacts of these formula changes on individual average schedule companies will vary, depending on each company's size and demand characteristics. Of the 506 average schedule study areas, NECA projects that 495 will experience settlement increases. A small group of study areas will experience overall settlement increases greater than 10%. These study areas derive a large percentage of their settlements from the Common Line Access Line and Central Office formulas, which are increasing for most study areas. Another small group of companies will experience overall settlement decreases. These decreases are primarily due to two factors: (1) a decrease in the Common Line formula for study areas in the 500 to 1,000 lines per exchange band; and (2) a decrease in the Line Haul Distance Sensitive Formula

Notwithstanding proposed overall increases in settlement rates, many companies may yet experience overall settlement decreases in the coming year, as market conditions cause continued declines in subscribership and calling volumes in many areas. In this average schedule study, for the first time, NECA projects overall decreases in interstate access minutes. Such demand decreases contribute to higher ratios of embedded cost to demand, causing proposed increases in settlement rates.

Shortly after this filing is made, **NECA** will send to all average schedule companies a letter previewing the proposed average schedule formulas. This notification presents preliminary formula impacts and offers reasons for the proposed changes. This notification will also provide information that will allow each average schedule company to calculate its new settlement amounts on its own or with the assistance of **NECA** regional staff.

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I. INTRODUCTION

The National Exchange Carrier Association, Inc. (NECA)' herein proposes modifications to current interstate average schedule formulas, for Federal Communications Commission (FCC or Commission) approval. These modifications are scheduled to be effective from July 1, 2003 to June 30, 2004.

A. Background

Exchange Carriers (ECs) that participate in NECA's access charge pools receive compensation for providing interstate access services either on the basis of their individual costs or a set of interstate average schedule formulas. Cost separation studies, performed in accordance with ~~Parts~~ 32, 36, 64, 65 and 69 of the Commission's rules, involve extensive data collection, analysis and reporting. The Commission has recognized that it is inefficient to require cost separation studies for all companies. Not all ECs have the resources available to perform these studies. Commission rules accordingly permit certain ECs to receive interstate access compensation (or "settlements") based upon a set of "average schedule" formulas developed by NECA.² The average schedule formulas are designed to "simulate the disbursements that would be received . . . by a [cost study] company that is representative of average schedule companies."³

Settlements made on the basis of average schedule formulas benefit both ECs and interstate ratepayers. The average schedule method substantially reduces administrative costs for these smaller

¹ NECA administers interstate access charge tariffs and revenue pools on behalf of member Exchange Carrier (ECs), and the preparation and filing of average schedule formulas, in accordance with the Commission's ~~Part~~ 69 rules (47 C.F.R. ~~Part~~ 69)

² Compensation to ECs using these average schedule formulas is based on an EC's number of access lines, access minutes and other demand variables.

³ 47 C.F.R. § 69.606(a).

ECs by eliminating the need to conduct detailed accounting and engineering cost studies required of cost companies. This cost savings, in turn, benefits ratepayers!

Section 69.606 (b) of the Commission's rules requires NECA either to file revised formulas on or before December 31st of each annual period, or to certify that no such revisions are necessary.⁴ Accordingly, each year, NECA conducts an extensive study of cost and demand data to determine if revisions to the average schedule formulas are warranted. NECA's **annual** study involves selecting a statistical sample of both cost and average schedule companies and collecting accounting and demand data from the selected companies! NECA then develops mathematical models ("allocation factor models") that describe how representative cost companies allocate their total costs to the interstate jurisdiction and to individual access charge categories.

The study also projects cost and demand data, obtained from sample average schedule companies, to account for growth. NECA then applies the allocation factor models derived from representative cost companies to sample average schedule company total company account data. **This** enables NECA to determine the interstate access portion **of** average schedule company total ~~cost~~, thereby simulating the effects of performing interstate cost studies for these companies. Finally, NECA develops formulas that relate sample average schedule company interstate access costs to various commonly-used demand units (such as access lines or access minutes) or combinations of demand units and other factors (such **as** lines per exchange) In developing these average schedule formulas,

⁴ See Revisions to the Average Schedules Proposed by NECA on October 3, 1988, *Memorandum Opinion and Order*, 4 FCC Rcd 2804 (1989) (1989 *Order*).

⁵ 47 C.F.R. § 69.606(b). The current formulas have been in effect since July 1, 2002.

⁶ Statistical sampling is commonly used as a cost-effective method of deriving estimates for a population. A properly designed sample will provide an accurate representation of the entire population, but at a fraction of the cost of examining the entire population.

NECA carefully analyzes different statistical models and selects the model that has the best fit to actual data. Upon Commission approval, these formulas are used by NECA to compute interstate settlements for average schedule companies that simulate cost study results.

In preparing proposed formula revisions, NECA receives valuable assistance from an Industry Average Schedule Task Group. This group consists of EC representatives sponsored by industry associations (*i.e.* the National Telephone Cooperative Association, the Organization for the Promotion and Advancement of Small Telecommunications Companies and the United States Telecom Association). The Task Group meets several times each year during the course of NECA's study, reviews the steps taken in developing the proposed formulas, advises NECA regarding the development of procedures for administration of the formulas, and assists the NECA Board of Directors in evaluating final proposed formulas.

Task Group participation **assures** that average schedule companies are able to participate fully in the development of **the** average schedules, and also have an opportunity to provide input to NECA regarding the ways in which changes in the settlement formulas can affect their networks.

B. Overview of This Filing

Each of the steps followed in NECA's study **are** explained in detail in this Filing? Section II describes the statistical sampling methods that NECA used in its data collection for settlement

⁷ The instant filing is referred to herein as the "2003 Filing" and the data collection and analyses upon which this filing is based are referred to as the "2002 Study." The proposed settlement formulas proposed herein **are** referred to as **the** "2003 Schedules." References made herein with respect to previous years' filings, studies and settlement formulas use similar nomenclature.

formula development. Section III contains a description of the sources and types of data NECA collected from cost and average schedule companies. Section IV explains the methods NECA used to develop cost allocation factor models from sample cost company data. Section V describes how NECA projected growth in historical cost and demand data, to develop cost and demand data applicable to the period the proposed formulas will be in effect. Section VI explains how NECA calculated Interstate and Access Category costs by account for each sample average schedule study area. Section VII explains how NECA develops the “best fitting” mathematical formulas for use in determining settlements and explains adjustments made to the formulas to reflect the allocation rules mandated by the MAG Order.⁸ NECA also explains in Section VII how the proposed formulas will affect average schedule companies. Section VIII lists the current and proposed average schedule formulas. Finally, the attached appendices contain all of the data used in NECA’s study. These data enable the Commission and interested parties to verify NECA’s Study results

The *2003* Filing utilizes the five-year sampling design developed in *1998* (*1998* Design). This Design selects a five-year sample, and then assigns members of the sample to data collection years. The *1998* Design takes extra precautions to ensure that additional “small” average schedule study

⁸ Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Service for Local Exchange Carriers, *Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166*, 16 FCC Rcd 19613 (2001) (MAG Order)

areas are included! The design entailed defining stratification attributes, determination of sample size, and allocation of the sample to strata, sample selection and assignment of study areas to specific data collection years. The 1998 Design utilizes a number of study area attributes, including size grouping (based on number of access lines per exchange); traffic volume (*high* or normal based on switched access minutes per access line); and circuit density (high or low based on switched terminations per exchange). Section II of this filing explains the 1998 Design in detail.

Additionally, in the 2003 Filing, NECA continued to adjust formulas to reflect the allocation rules mandated by the MAG Order. As in the 2002 Filing, NECA made the following adjustments: (1) reallocation of a portion of General Purpose Computer costs from access categories to the Billing and Collection category; (2) reallocation of Switch Line Port costs from the Central Office to the Common Line access category; and (3) reallocation of Transport Interconnection Charge costs for Transport to Common Line

C. Effects of Proposed Modifications on Average Schedule Companies

1. Formula Changes

NECA develops average schedule formulas in the common line and traffic sensitive access tariff categories. Common line formulas include a Common Line Access Line formula, a Universal Service Contribution Formula, a Common Line Line Port formula, a Common

⁹ “Small” study areas are defined as those with fewer than 200 access lines per exchange. This is in response to a Commission concern first brought to NECA’s attention in December 1997. See National Exchange Carrier Association, Inc. (NECA), Proposed Modifications to the 1997 Interstate Average Schedule Formulas and Proposed Further Modifications to the 1997-98 Interstate Average Schedule Formulas, AAD 97-2, AAD 97-109, *Order on Reconsideration and Order*, 13 FCC Rcd 10116(1997)

Line Transport formula and a Rate of Return Factor formula. Traffic Sensitive formulas include the Traffic Sensitive components of a Central Office formula, Line Haul Transport formulas, and an Intertoll Switching formula, a Special Access formula, Signaling System 7 formulas, an **Equal** Access formula, and a Network Administration formula.

Beginning July 2003, carriers can expect, on average, an overall settlement increase of 3.97% as a result of the new formulas. **This** increase reflects a 4.44% increase in Common Line (CL) settlement rates and a 3.38% increase in overall Traffic Sensitive (TS) settlement rates.

NECA proposes a 3.03% increase in the Common Line Access Line formula, primarily because of demand reduction and cost growth.

The Central Office (CO) formula is proposed to increase 10.15% on average, primarily due to increased cost allocations, and decreased switched access minutes.

The Distance Sensitive Line Haul formula will decrease by 4.79% on average, primarily due to the continued **shift** from copper cable facilities to lower cost fiber networks.

The Non-Distance Sensitive Line Haul formula is proposed to increase 13.98% on average, reflecting the lower growth of circuit terminations.

NECA proposes to keep the Intertoll Dial settlements formula essentially unchanged (an increase of 0.05%).

NECA is proposing a 5.94% decrease on average in Special Access formula, reflecting continued significant growth in services outpacing cost additions.

NECA proposes a 1.03% increase on average in the Signaling System (SS7) formula, reflecting replacement costs of older equipment.

2 Effects on Individual Average Schedule Companies

Effects of these formula changes on individual average schedule companies will vary depending on each company's size and demand characteristics. A **summary** of company changes by access line size is included in Section VII.

Of the 506 average schedule study areas, NECA calculates that 495 will experience formula increases. A small group of study areas will experience overall formula increases greater than 10%. These study areas derive a large percentage of their settlements from the Common Line Access Line and Central Office formulas, which are increasing. Another small group of companies will experience overall formula decreases. These decreases appear to be primarily due to two factors: (1) a decrease in the Common Line formula for study areas in the 500 to 1,000 lines per exchange band, and (2) decrease in the Line Haul Distance Sensitive Formula.

Small rural exchange carriers are experiencing a period of unprecedented falloff in subscriber demand. As a result, even with formula increases proposed by NECA, many companies will experience overall settlement decreases. These decreases could hamper the ability of these carriers to continue to provide quality service. For this reason, it is especially important to assure that the formulas are adjusted to reflect expected cost and demand levels for the 2003 - 2004 test period.

Some companies may be affected more significantly than others. In the event that any average schedule company files a petition demonstrating hardship, NECA requests that the Commission consider carefully the extent of individual company impacts associated with total settlement changes from all formulas and the potential need for transitional assistance in adjusting to new formula levels

D. Communications with Average Schedule Companies

NECA will send to all average schedule companies a letter previewing the proposed average schedule formulas. **This** notification will present preliminary formula impacts and offer reasons for the proposed changes. This notification will also provide information that will allow each average schedule company to calculate its new settlement amounts on its **own** or with the assistance of NECA regional staff. In addition, NECA will update average schedule training and other materials routinely supplied to average schedule companies to reflect the **new** settlement formulas